

annual report to shareholders 1997



company profile

Imperial Oil Limited is one of Canada's largest corporations and has been a leading member of the country's petroleum industry for more than a century. The company's mission is to create value for its shareholders through the development and sale of hydrocarbon energy and related products.

Imperial is the country's largest producer of crude oil and a major producer of natural gas. It is the largest refiner and marketer of petroleum products – sold primarily under the Esso brand – with a coast-to-coast supply network. As well, the company is a major producer of petrochemicals.



This report contains forward-looking information on future production, project start-ups and future capital spending. Actual results could differ materially due to market conditions, changes in law or government policy, changes in operating conditions and costs, changes in project schedules, operating performance, demand for oil and gas, commercial negotiations or other technical and economic factors.

financial highlights

	1997	1996	1995	1994	1993
Net earnings (millions of dollars)	847	786	514	359	279
Cash flow from earnings ⁽¹⁾	1 427	1 449	1 308	1 146	1 167
Capital and exploration expenditures	639	564	570	540	538
Return on average capital employed (percent) ⁽²⁾	15.2	12.4	7.7	5.3	4.1
Per-share information (dollars) ⁽³⁾					
Net earnings	5.50	4.47	2.67	1.85	1.44
Cash flow from earnings	9.26	8.24	6.79	5.91	6.02
Dividends	2.20	2.05	1.90	4.80	1.80

(1) Cash flow from earnings is defined on page 30.

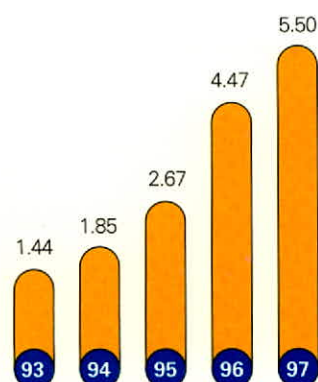
(2) Net earnings and after-tax interest expense (interest expense from page 41, note 13, at the basic corporate rate, page 38, note 7) divided by average capital employed (page 34, note 1).

(3) Calculated by dividing the respective nominal amounts by the average number of shares outstanding, weighted monthly (page 44).

highlights

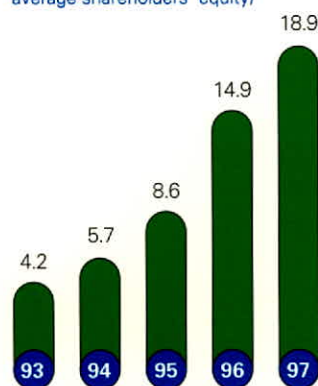
- Earnings totaled a record \$847 million
- Shareholder returns reached 47%
- Earnings per share rose 23%

earnings per share
(dollars)



Earnings per share rose by 23 percent in 1997, increasing for the sixth consecutive year.

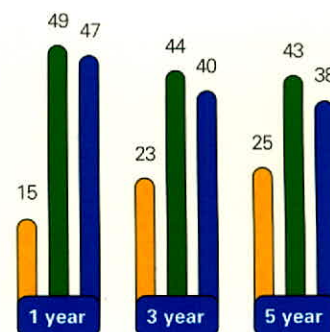
return on average
shareholders' equity
(percent, net earnings divided by
average shareholders' equity)



Return on average shareholders' equity improved to 18.9 percent, the best result since 1980.

shareholder
returns

(percent per year, non-compounded,
calculated on original investment)



Assumes dividends are reinvested

● TSE 300 index
● Integrated oils index
● Imperial Oil

Total shareholder returns from price appreciation and dividends reached 47 percent in 1997, bringing five-year returns to 38 percent a year.

1997 was a very good year for Imperial Oil and its shareholders

letter to shareholders

Earnings increased for the sixth consecutive year to a record \$847 million or \$5.50 per share. Return on average capital employed, a key measure of profitability, was 15.2 percent. For the first time since the company began reporting return on capital employed on a segmented basis in 1981, all three of the company's operating segments – natural resources, petroleum products and chemicals – achieved a better than 10-percent return.

Return on shareholders' equity improved to 18.9 percent, the best result since 1980. Total return to shareholders for the year, including share-price appreciation and dividends of \$2.20 a share, was 47 percent in 1997, following 34 percent in 1996. During the year, the company also returned almost \$700 million to shareholders by purchasing 9.6 million of its shares.

Imperial's financial position remains strong. Long-term debt was reduced in 1997 to \$1,506 million, and the company's balance of cash and marketable securities at year-end stood at \$770 million.

These excellent financial results reflected strong operating performance at a time when the Canadian economy was improving and business and market conditions were generally favorable for integrated oil companies. Natural resources earnings increased as higher production volumes and gains from the sale of oil and gas properties more than offset lower crude oil prices.



R.B. (Bob) Peterson
Chairman, president and
chief executive officer

Petroleum products earnings also increased, as declining oil prices and rising product demand from a growing economy led to improved sales margins in both refining and marketing operations during most of the year. Earnings from chemicals operations increased to a record level, reflecting strong markets for polyethylene and a gain on the sale of the company's interest in a chemical technology venture.

Overall, 1997 was another year of steady and continuous improvement in Imperial's financial and operating performance.

The early days of 1998, however, saw a substantial reduction in the prices of many commodities, reflecting in part the economic contraction under way in southeast Asia. The international crude oil market, for example, was considerably weaker in early 1998 than a year ago, with prices at one point reaching their lowest level since early 1994. The outlook remains uncertain, suggesting a challenging year ahead.

Our near-term business plans assume continuing modest growth in the Canadian economy, intense competition, and plentiful supplies and volatile markets for the various commodities we produce and sell. It has been our view for several years that we cannot rely on higher resource prices or increased margins to improve business results at Imperial. We must continue to focus on improving those aspects of our operations that we can control. This strategic approach has been guided by four corporate priorities and an underlying objective of achieving a double-digit return on the capital employed in each business unit.

Our sustained and consistent commitment to this approach has provided the foundation for the continuous improvement of Imperial's financial and operating results in the last several years. It has made us a more efficient and effective competitor in every segment of our industry. Our business plans and programs will continue to be guided by the same four strategic priorities.

Our first priority, execution excellence by the most capable people, is essential to success in every aspect of the business – from providing our customers with high-quality products and service at the lowest possible cost to ensuring safe and reliable operations and effective business controls. Last year, we made further progress towards streamlining our core business processes and integrating a variety of computer-based information and reporting systems. Our program to ensure that every person in the company is fully capable of performing his or her job to the highest standards of quality is also fully in place.

To promote excellence of execution in all aspects of our business, we initiated a comprehensive program aimed at further enhancing employees' understanding of the importance of business controls in everyday activities and of their individual controls-related responsibilities. We also began implementing a program, both within the company and in cooperation with customers and suppliers, to ensure that Imperial's operations will not be negatively impacted by the year 2000 issue.

Our second priority, growing profitable sales volumes, is aimed at improving results in several business units. Here we are focusing on products and market segments that provide higher value. For example, sales of higher-margin, Esso-branded petroleum products have steadily increased in recent years and now account for more than 76 percent of domestic sales. In chemicals, a project to expand polyethylene manufacturing capacity by 20 percent was completed late in the year.

In natural resources, our emphasis is on development of Imperial's substantial oil-sands resources. Net production from our Cold Lake operations averaged 108,000 barrels a day, up more than 45 percent from 1996, reflecting completion of phases 9 and 10 in late 1996. We have applied for government approval to develop another three phases at Cold Lake, which would increase production by a further 30,000 barrels a day early in the next century. At Syncrude, in which Imperial holds a 25-percent interest, work began on a project that will eventually double production. And at year-end, construction had started on the Sable Island offshore natural gas project, in which Imperial has a nine-percent interest.

Our third priority, achieving and maintaining a first-quartile cost structure, is critical to improving our competitive position in all business segments, and we continue to make progress in this important area. Many business units have achieved or exceeded a first-quartile level of cost performance and we remain committed to further cost improvement in all parts of the business.

Our fourth priority is to improve the productivity of our asset mix, both through selective investment in high-quality opportunities and through the timely divestment of non-core or underperforming operations and facilities. In 1997, proceeds from asset sales totaled \$968 million. And we invested \$639 million, including \$433 million in natural resources to increase production at Cold Lake and Syncrude and to enhance existing conventional oil and gas operations.

We expect to spend about \$650 million in 1998 to advance a number of attractive opportunities, including expansions at Cold Lake and Syncrude as well as the Sable Island project. In petroleum products, we will continue to invest in upgrading our retail service-station network and to improve the profitability of our refining operations. In chemicals, the focus is on growth through low-cost capacity expansion.

Over the longer term, we remain dedicated to creating value for shareholders by building on Imperial's considerable strengths. The company is in excellent financial condition and is a strong competitor in every segment of the industry. It has a substantial resource base,

efficient manufacturing, distribution and sales facilities and networks, a commitment to providing customers with high-quality products and services, and a workforce of capable and dedicated employees who continue to rise to the demands of a very competitive industry and a constantly changing world. On behalf of all our shareholders, I want to thank all employees for their indispensable contributions.

It is important for shareholders to realize, however, that Imperial's long-term success also depends to a large degree on a healthy, growing and competitive Canadian economy and, in this respect, I feel obliged to comment on an issue of increasingly serious concern.

Continued economic growth is essential to fulfilling the individual and collective hopes of all Canadians for a rising standard of living, and history reveals that an expanding economy is directly related to the efficient use of affordable energy. Yet the Government of Canada appears to be on a course to mandate a substantial reduction in the use of oil and other hydrocarbon fuels, based on the unproven hypothesis that consumption of these fuels will cause global climate change. This issue of potential climate change and what to do about it is, in my opinion, the most important economic policy decision our country faces today.

Imperial has joined many other Canadian corporations and business groups in expressing grave concern over the federal government's commitment, made at the Kyoto conference on climate change last December, to reduce Canadian emissions of greenhouse gases – primarily carbon dioxide from hydrocarbon-fuel consumption – to six percent below 1990 levels, or roughly 20 percent below current levels, by 2010. Given the direct relationship between economic activity and energy use, and the absence of technically or economically viable alternatives to hydrocarbon fuels, such a substantial reduction in carbon-dioxide emissions cannot be achieved without major government intervention to limit the use of energy and, as a consequence, the size and nature of the Canadian economy.

Such a policy would have significant adverse consequences in terms of future employment opportunities, investment levels, international competitiveness and the lifestyles of all Canadians. It is an inappropriate public-policy response to an important and complex issue. I urge shareholders to follow this issue closely. Apprise yourself of the facts, and make your views known to government in the months ahead.

One of Imperial's longest-serving directors, W.A. (Bill) Macdonald, who joined our board in 1977, will retire at our annual meeting of shareholders in April. On behalf of shareholders, his colleagues on the board and Imperial's employees, I would like to express our gratitude to Mr. Macdonald for his 21 years of distinguished service to the company and to wish him well in the future.



February 19, 1998

Earnings reached record levels
for the second consecutive year



financial and operating overview

Net earnings were \$847 million or \$5.50 a share in 1997, up eight percent from \$786 million or \$4.47 in 1996 (1995 – \$514 million or \$2.67). Earnings per share grew by 23 percent, more than the growth in net earnings because of the company's continuing program of share repurchases.

Included in 1997 earnings were \$179 million in after-tax gains on asset sales, up from a loss of \$19 million in 1996. Major asset sales included the company's Judy Creek and Swan Hills properties in Alberta. The company also sold its interest in a chemical technology venture.

Imperial's 1996 earnings included, as nonoperating items, a gain of \$322 million from federal and provincial tax refunds, offset in part by \$33 million (after-tax) in expenses for the redemption of U.S.-dollar-denominated debt. Excluding the effect of asset sales in both years and the 1996 nonoperating items, earnings rose to \$668 million in 1997, an increase of 29 percent from \$516 million in 1996 (1995 – \$517 million). Earnings per share increased to \$4.34 in 1997, up 48 percent from \$2.93 in 1996 (1995 – \$2.69).

Earnings increased in all three operating segments during 1997, compared with the previous year. A detailed discussion of segmented operating results begins on page 11.

Earnings from corporate and other accounts were negative \$44 million in 1997, compared with positive \$239 million last year (1995 – negative \$19 million). The main reason for the difference was the tax refund in 1996.

net earnings by segment (millions of dollars)

	1997	1996	1995	1994	1993
Natural resources	466	333	233	167	92
Petroleum products	297	146	186	212	238
Chemicals	128	68	114	52	35
Corporate and other	(44)	239	(19)	(72)	(86)
Net earnings	847	786	514	359	279

factors affecting Imperial's 1997 earnings



Cash flow from earnings was \$1,427 million, down slightly from \$1,449 million in 1996 (1995 – \$1,308 million).

Cash provided from operating activities was \$987 million, compared with \$1,736 million in 1996 (1995 – \$1,643 million). The main reasons for the change were the receipt of the tax refund in 1996 and the payment in 1997 of taxes due on the interest portion of the refund.

The company also continued its share-buyback programs, which began in 1995. In 1997, Imperial purchased 9.6 million shares for \$694 million, reducing the number of shares outstanding by six percent. Purchases have continued in 1998.

Exxon Corporation is participating in the share purchase program to maintain its ownership interest in Imperial at 69.6 percent.

As a result of the share-buyback programs – which included a one-time purchase of 24 million shares for \$60 each in an auction-tender process completed in the third quarter of 1996 – the number of company shares outstanding was 149 million at the end of 1997, down from 159 million at the end of 1996 (1995 – 189 million).

The company paid dividends of \$2.20 a share in 1997, up from \$2.05 a share in 1996 (1995 – \$1.90).

cash flows before financing and before investing in short-term securities

(millions of dollars)



Cash inflows once again exceeded expenditure commitments by a substantial margin.

Imperial retains a strong financial position. At the end of 1997, the company's balance of cash and marketable securities had increased to \$770 million, from \$582 million at the end of 1996 (1995 – \$1,842 million).

The company spent \$91 million on debt repayment in 1997. That amount included \$24 million of debt denominated in Canadian funds and \$50 million denominated in U.S. funds. Long-term debt was \$1,506 million at year-end. That represented about 29 percent of the company's capital structure, unchanged from the previous year (1995 – 28 percent).

Debt-related interest costs decreased in 1997 to \$122 million, from \$133 million in 1996 (1995 – \$160 million), as a result of lower debt. The average interest rate on the company's debt was 7.2 percent in 1997, compared with 6.8 percent in 1996 (1995 – 7.0 percent).

Imperial's ability to meet its debt obligations continued to strengthen in 1997. On an earnings basis, interest coverage increased to 13.5 times, compared with 8.0 times in 1996 (1995 – 6.8 times). On a cash-flow basis, interest coverage was 18.1 times, compared with 14.3 times in 1996 (1995 – 12.2 times).

Imperial is exposed to a variety of financial, operating and market risks. Some of the risks are within the company's control, others are not. For controllable risks, the company applies a variety of risk management strategies to reduce the likelihood of loss. For example, several years ago, Imperial introduced the operations integrity management framework, which provides a disciplined and structured approach to running all company facilities safely and reliably.

Market risks, such as changes in international commodity prices and currency exchange rates, are not within the company's control. Imperial's potential exposure to those risks is summarized in the

financial percentages and ratios

	1997	1996	1995	1994	1993
Total debt as a percentage of capital ⁽¹⁾	28.5	28.7	28.2	28.9	26.9
Interest coverage ratios					
Earnings basis ⁽²⁾	13.5	8.0	6.8	5.7	5.3
Cash-flow basis ⁽³⁾	18.1	14.3	12.2	13.0	12.9

(1) Debt (page 36, note 4) and guarantees to third parties (page 40, note 9(b)) divided by debt, guarantees to third parties and shareholders' equity (page 31).

(2) Net earnings (page 29), debt-related interest expense (page 41, note 13) and income taxes (page 29) divided by debt-related interest expense.

(3) Cash flow from earnings (page 30), current income tax expense (page 38, note 7) and debt-related interest expense divided by debt-related interest expense.

earnings sensitivities table below. The amount quoted to illustrate the impact of each sensitivity (for example, the \$2 [U.S.]-a-barrel change in crude oil prices) represents a change of about 10 percent of the value of the commodity or rate in question at the end of 1997. The impacts have not changed materially from the previous year.

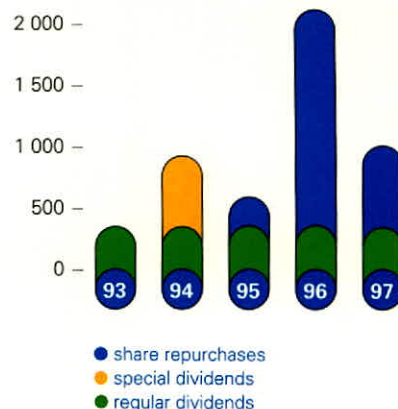
Each sensitivity calculation shows the earnings impact of a change in one factor – after tax and after royalties – holding all other factors constant.

Imperial does not use derivative markets to speculate on the future direction of currency or commodity prices and does not sell forward any part of its production. It will occasionally enter into short-term contracts to mitigate risks on specific purchase and sale commitments – for example, where a customer has asked for a guaranteed price on a future delivery. At year-end, the total value of such contracts outstanding was negligible. Interest and currency swaps are also used within limits to manage the interest rate or currency exposure of the corporation's debt.

Imperial's operations are large and complex, and computer systems and devices are used extensively to accomplish thousands of tasks ranging from carrying out operations in the field to reporting results. The company has therefore devoted considerable attention to preventing any disruptions that could result from the year 2000 issue. The issue has arisen because, until fairly recently, most computing devices and software programs used a two-digit code to indicate the year. When 2000 arrives, the year code 00 could be wrongly identified as 1900. Given the potential for serious operating disruptions, the company established a year 2000 task force in 1996 that has assessed the extent of the problem and has drawn up specific plans for dealing with it. Those plans are expected to be substantially carried out in 1998, with completion and final testing in 1999. Costs to date have been minimal. The estimated total cost of the program is about \$60 million, most of which will be expensed. The company is also working with its customers and suppliers to avoid any operating problems or disruptions related to this issue.

cash payments to shareholders

(millions of dollars)



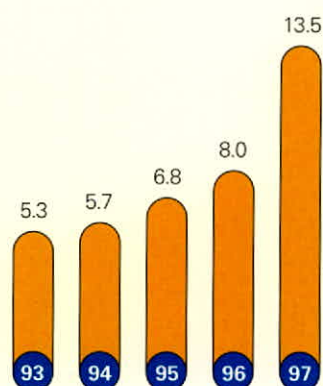
Imperial paid total dividends of \$343 million and repurchased 9.6 million shares for \$694 million.

earnings sensitivities

(millions of dollars after tax)

Each \$2 (U.S.)-a-barrel change in crude oil prices	100
Each 20-cent-a-thousand-cubic-feet change in natural gas prices	10
Each one-cent-a-litre change in sales margins for total petroleum products	150
Each two-cent (U.S.)-a-pound change in sales margins for polyethylene	15
Each one-half-percent decrease (increase) in U.S. short-term interest rates	+(-) 3
Each seven-cent decrease (increase) in the value of the Canadian \$ vs. the U.S. \$	+(-) 140

interest coverage ratio (earnings basis)



Imperial's ability to meet its debt obligations continued to strengthen in 1997, as interest coverage from earnings increased to 13.5 percent.

Capital and exploration expenditures increased by 13 percent to \$639 million in 1997, from \$564 million in 1996 (1995 – \$570 million). The funds were used to maintain and increase conventional oil and gas production at the most profitable properties, to expand production at Cold Lake and Syncrude, to improve refining operations and upgrade the Esso retail marketing network, to expand polyethylene production capacity and to meet environmental commitments.

Capital and exploration expenditures are expected to be about \$650 million in 1998. This amount will be financed entirely from internally generated funds. Further information on the planned expenditures is contained in the reports on the three operating segments.

Expenditures on research and development in Canada were \$61 million in 1997, up from \$46 million in 1996 (1995 – \$58 million). Those funds were directed mainly at developing better methods for heavy oil recovery and higher-quality lubricants. In 1997, 21 original patents were awarded.

The number of full-time employees was 7,096 at year-end 1997, compared with 7,483 in 1996 (1995 – 7,821). The main reasons for the change were asset sales in natural resources and productivity programs in the refining and marketing organizations.

Imperial also hired 267 employees in 1997, 92 of them as part of its ongoing campus recruitment program. This program, which the company has carried out for many years through periods of economic recession and organizational change, is considered an essential part of providing for renewal of Imperial's professional and managerial capabilities.

The company continued to pursue a structured program for identifying employee development needs and providing appropriate training to ensure execution excellence. During the year, Imperial introduced a system to track employee skill requirements and suggest development options.

The company continues to believe in supporting the communities in which it operates. The Imperial Oil Charitable Foundation contributed \$6.3 million in 1997 to about 600 organizations across Canada. Imperial's charitable efforts are aimed at enhancing the quality of life in communities where the company has a significant presence, with particular emphasis on education and youth.

employees

	1997	1996	1995	1994	1993
Number of full-time employees at December 31	7 096	7 483	7 821	8 252	9 470
Total payroll and benefits (millions of dollars) ⁽¹⁾	810	770	751	779	875

(1) This includes both the company's payroll and benefit costs and its share of the Syncrude joint-venture payroll and benefit costs. It excludes workforce-reduction costs.

Gains on asset sales and increased production from Cold Lake contributed to an excellent year



natural resources

Earnings from natural resources were \$466 million, the highest since 1985, and up from \$333 million in 1996 (1995 – \$233 million). The increase was due mainly to gains on the sale of oil and gas properties and increased production at Cold Lake, offset in part by lower oil prices, particularly for heavy oil, and decreased production of conventional oil.

Return on average capital employed increased to 15.5 percent from 9.7 percent in 1996 (1995 – 6.3 percent).

Included in 1997 earnings were gains of \$143 million on the sale of producing properties, compared with a loss of \$18 million in 1996 (1995 – loss of \$9 million).

Resource revenues grew to \$2.8 billion from \$2.5 billion in 1996 (1995 – \$2.3 billion). Gains from the sale of producing properties and increased production of Cold Lake bitumen more than offset decreased production of conventional oil and lower oil prices.

World oil prices decreased

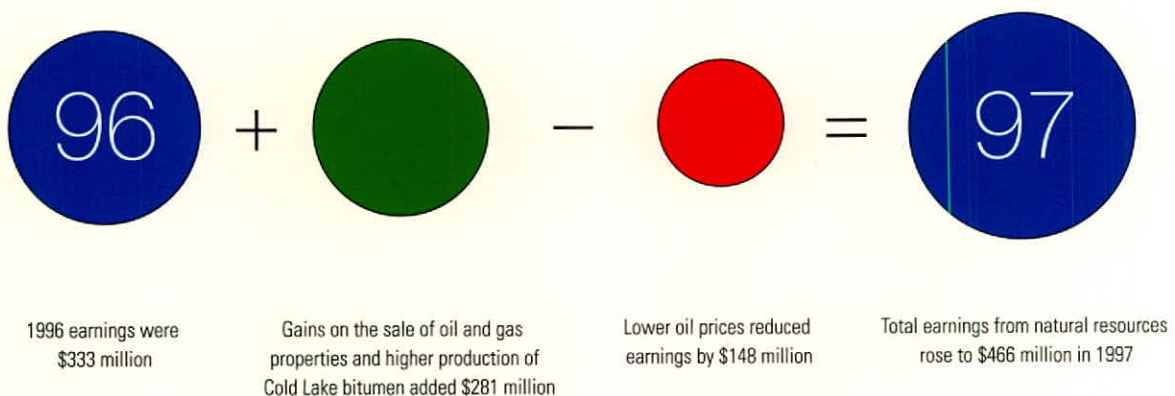
World oil prices decreased in 1997, as growth in global supply outpaced strong world growth in demand. The price of Brent, the most actively traded North Sea crude oil and a common benchmark of world oil prices, averaged \$19.10 (U.S.) a barrel for the year as a whole, compared with \$20.64 in 1996 (1995 – \$17.00). World oil prices began to fall during the fourth quarter of 1997, a decline that continued in early 1998.

The company's realizations on sales of conventional Canadian crude oil reflected international trends, declining to \$25.03 (Can.) a barrel in 1997, from \$26.71 in 1996 (1995 – \$21.72).

The prices of Canadian heavy oil, including blended bitumen from Cold Lake, declined more sharply than light crude oil prices, as growing supplies of heavy oil led to increased competition. Average realizations on the company's sales of blended bitumen fell by 20 percent from the previous year. Rising prices for the light hydrocarbons used to dilute the bitumen to enable it to be shipped by pipeline further reduced the value of bitumen production.

Market prices for Canadian natural gas were higher, on average, in 1997 than the previous year. The average Alberta reference price for natural gas was \$1.96 a thousand cubic feet (mcf) in 1997, compared with \$1.61 in 1996 (1995 – \$1.33). North American gas prices weakened in the fourth quarter of 1997, as relatively mild temperatures reduced demand in an already oversupplied market.

factors affecting earnings from natural resources



financial statistics (millions of dollars)

	1997	1996	1995	1994	1993
Earnings	466	333	233	167	92
Revenues	2 845	2 494	2 267	2 220	2 143
Capital and exploration expenditures					
Exploration	55	73	86	84	69
Production	139	109	80	138	221
Heavy oil	239	170	164	49	63
Total capital and exploration expenditures	433	352	330	271	353
Capital employed at December 31	2 618	3 403	3 548	3 900	4 240
Return on average capital employed (percent)	15.5	9.7	6.3	4.1	2.1

Imperial's average realizations on natural gas sales were higher than the industry average, partly because of direct sales to customers in the United States. In 1997, average realizations on natural gas sales were \$2.11 an mcf, compared with \$1.99 in 1996 (1995 – \$1.46).

Imperial's net production of crude oil and natural gas liquids (NGLs) was 238,000 barrels a day, up from 211,000 in 1996 (1995 – 242,000), mainly because of increased Cold Lake production.

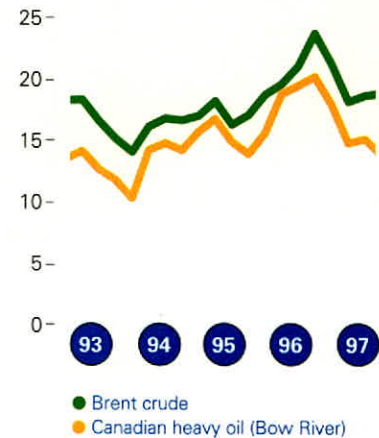
Bitumen production increased

Net bitumen production at Cold Lake increased to 108,000 barrels a day from 73,000 in 1996 (1995 – 90,000). The increase reflected improved operating performance from phases 1 to 8 of Cold Lake and the first full year of production from phases 9 and 10, which began operation in the fall of 1996. Also contributing to the increase in net production were lower effective royalties. Royalties on Cold Lake production are the greater of five percent of gross production or 30 percent of net revenue as determined by subtracting certain operating costs and capital expenditures. In 1997, the effective royalty rate on gross production was five percent, compared with 14 percent in 1996 (1995 – five percent).

Net production of conventional oil declined to 64,000 barrels a day from 75,000 in 1996 (1995 – 82,000), mainly because of the sale of producing properties and natural reservoir decline, which is expected to continue.

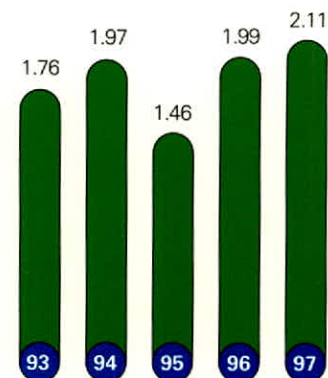
At Syncrude, where the company has a 25-percent interest, gross production rose to a record 207,000 barrels a day from 201,000 in 1996 (1995 – 202,000). The increase resulted from the start-up in the fall of the new North mine – which replaced production from the nearly depleted existing mine – and from new processes and equipment in the upgrading plant that converts bitumen into light oil. Imperial's share of Syncrude's net production grew to 47,000 barrels a day, up from 41,000 in 1996 (1995 – 44,000). Contributing to the increase in net production was a lower effective royalty rate, resulting from an agreement with the Province of Alberta reached in February 1997 that provides, among other things, for lower royalties on certain new production and an immediate royalty credit on capital expenditures.

crude oil prices (U.S. dollars a barrel)



Average world oil prices decreased in 1997, with prices for Canadian heavy oil falling even further.

natural gas average realizations (dollars a thousand cubic feet)

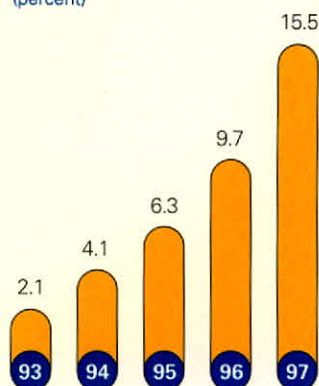


Realizations for natural gas were higher on average in 1997.

average realizations and prices (dollars)

	1997	1996	1995	1994	1993
Conventional crude oil realizations (a barrel)	25.03	26.71	21.72	19.46	19.58
Natural gas realizations (a thousand cubic feet)	2.11	1.99	1.46	1.97	1.76
Par crude oil price at Edmonton (a barrel)	27.90	29.40	24.29	22.30	21.90
Heavy crude oil price at Hardisty (Bow River, a barrel)	21.13	25.08	20.82	18.18	17.14

natural resources – return on average capital employed (percent)



Return on average capital employed rose to 15.5 percent, because of increased earnings and reduced capital employed.

Net production of natural gas decreased slightly to 379 million cubic feet a day in 1997 from 388 million in 1996 (1995 – 426 million). Net production available for sale rose to 203 million cubic feet a day from 194 million in 1996 (1995 – 281 million) because of decreased internal consumption.

Despite rising costs throughout the industry, total operating expenses were about the same as last year. Increased costs at Cold Lake and Syncrude were largely offset by the effect of sales of producing properties.

Gains from asset sales increased

Throughout the year, Imperial continued to market conventional oil and gas properties. The company divested its interests in 21 properties in 1997, representing 14,000 barrels of daily net oil and NGL production and 63 million barrels of net proved reserves of oil and NGLs, as well as 43 million cubic feet of net daily gas production and 122 billion cubic feet of net gas reserves. Proceeds were \$876 million, compared with \$152 million in 1996 (1995 – \$102 million). Because of buoyant market conditions, property sales contributed \$143 million to earnings, compared with a loss of \$18 million in 1996 (1995 – a loss of \$9 million).

crude oil and NGLs – production and sales ^(1,2) (thousands of barrels a day)

	1997		1996		1995		1994		1993	
	gross	net	gross	net	gross	net	gross	net	gross	net
Conventional crude oil	82	64	95	75	105	82	115	93	120	96
Cold Lake	114	108	85	73	94	90	88	83	86	82
Syncrude	52	47	50	41	51	44	48	46	46	44
Total crude oil production	248	219	230	189	250	216	251	222	252	222
NGLs available for sale	22	19	26	22	30	26	32	29	31	31
Total crude oil and NGL production	270	238	256	211	280	242	283	251	283	253
Cold Lake sales, including diluent ⁽³⁾	153		115		128		121		118	

natural gas – production and sales ^(1,2) (millions of cubic feet a day)

	1997		1996		1995		1994		1993	
	gross	net	gross	net	gross	net	gross	net	gross	net
Production ⁽⁴⁾	454	379	474	388	522	426	542	445	621	509
Production available for sale ⁽⁵⁾	278	203	280	194	377	281	385	286	441	328
Sales	354		344		440		474		522	

(1) Volumes a day are calculated by dividing total volumes for the year by the number of days in the year.

(2) Gross production is the company's share of production (excluding purchases) before deducting the shares of mineral owners or governments or both. Net production excludes those shares.

(3) Includes natural gas condensate added to the Cold Lake bitumen to facilitate transportation to market by pipeline.

(4) Production of natural gas includes amounts used for internal consumption with the exception of amounts reinjected.

(5) Production available for sale excludes amounts used for internal consumption and amounts reinjected.

The most significant divestment was the sale of the company's interests in three oil fields in the Judy Creek and Swan Hills areas of Alberta for \$595 million, the largest transaction of its kind in Imperial's history.

Capital and exploration expenditures increased to \$433 million in 1997 from \$352 million in 1996 (1995 – \$330 million).

Capital expenditures at Cold Lake totaled \$169 million in 1997. Most of the funds were used to drill 338 new development wells. Other uses included delineating the resource base outside the currently developed area and sustaining the productivity of earlier phases.

Capital spending in the Athabasca oil-sands region was \$94 million. This included Imperial's share of Syncrude's capital investment program, which was \$78 million in 1997, compared with \$51 million in 1996 (1995 – \$42 million). The funds were used for expanding upgrader capacity and for development of the new North mine – including purchase of the world's largest trucks and shovels, and other related equipment used to recover the bitumen-saturated ore and break it down for transport by slurry pipeline to the upgrading plant.

Expenditures on development drilling rose

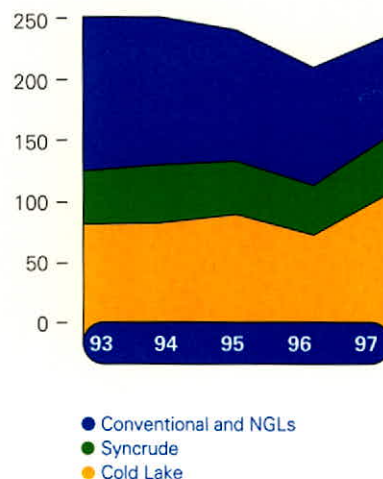
Spending on development drilling rose to \$62 million from \$50 million in 1996 (1995 – \$35 million). The funds were used for attractive drilling projects at virtually all of the company's core properties. Major programs included development of the Murray River gas field in northeastern British Columbia, in which the company holds a 42-percent interest, and drilling at the Cardinal gas field in Alberta and the Hoosier conventional heavy oil play in west-central Saskatchewan.

Total exploration expenditures were \$55 million, compared with \$73 million in 1996 (1995 – \$86 million).

Imperial's exploration strategy is to search for hydrocarbons near established producing areas. During 1997, the company drilled 15 net exploratory wells. Discoveries added 16 million barrels of net proved reserves of crude oil and NGLs and 24 billion cubic feet of net proved gas reserves.

crude oil and NGLs – net production by source

(thousands of barrels a day)



Total net production of crude oil and NGLs increased for the first time in eight years, as rising output of heavy oil more than offset declining conventional production.

natural gas sales (millions of cubic feet a day)



Gas sales were essentially unchanged in 1997, as lower internal consumption offset lower production.

Planned expenditures are \$450 million

Planned capital and exploration expenditures for 1998 are about \$450 million. Included in that amount are funds for development of the Sable Offshore Energy Project in Nova Scotia, further expansions at Cold Lake and development of the Aurora mine at Syncrude.

About \$80 million will be spent in 1998 as the company's share of the Sable project, which received final regulatory approvals at the end of 1997. The project, in which Imperial has a nine-percent interest, will develop natural gas from offshore fields about 250 km southeast of Halifax, at an estimated total cost of \$3 billion. Production is expected to begin in the year 2000 and to average about 500 million cubic feet of gas and 20,000 barrels of natural gas liquids a day. Recoverable reserves are currently estimated to be 3.5 trillion cubic feet of gas.

At Cold Lake, the company is awaiting regulatory approval to develop phases 11 to 13 of its wholly owned bitumen operation. If approval is received in 1998, the new phases could begin production by about the year 2000. That would increase bitumen production by an estimated 30,000 barrels a day and add about 250 million barrels to Imperial's proved oil reserves. Current plans for the project include a 220-megawatt electrical cogeneration plant that would supply all the needs of the Cold Lake operation and generate electricity for sale to the Alberta power pool.

proved reserves of crude oil and natural gas ⁽¹⁾

Year ended	Crude oil and NGLs millions of barrels								Natural gas billions of cubic feet	
	Conventional		Cold Lake		Syncrude		Total		gross	net
	gross	net	gross	net	gross	net	gross	net		
1993	555	444	798	691	392	314	1 745	1 449	3 053	2 505
1994	519	416	868	752	529	448	1 916	1 616	2 737	2 302
1995	442	362	898	779	511	432	1 851	1 573	2 487	2 118
1996	400	331	867	752	492	443	1 759	1 526	2 186	1 872
1997	308	259	827	713	685	616	1 820	1 588	1 869	1 612

(1) Gross reserves are the company's share of reserves before deducting the shares of mineral owners or governments or both. Net reserves exclude these shares.

Imperial announced plans in 1997 to build two parallel pipelines between the Cold Lake area and Hardisty, Alta. One line would carry blended bitumen 250 km from Cold Lake to Hardisty, which is located in east-central Alberta and is the site of a major pipeline terminal. The other would carry the light hydrocarbon liquids (diluent), which are blended with bitumen to make it transportable by pipeline, from Hardisty to Cold Lake. Total cost of the project, named ThickSilver, is estimated at \$250 million. Imperial holds a 58-percent interest in the project and will be its operator.

Syncrude will proceed with development of the first phase of its new Aurora mine in 1998. The Aurora investment involves establishing a new mine about 35 km from the current Syncrude site. This development has added 190 million barrels to Imperial's share of Syncrude's reserves and will increase the company's share of Syncrude production to 64,000 barrels a day by the year 2000. Syncrude has announced plans for further expansions that could roughly double its production over the next 10 years.

Planned expenditures for exploration and development drilling, as well as capacity additions in conventional oil and gas operations, are expected to exceed \$140 million.

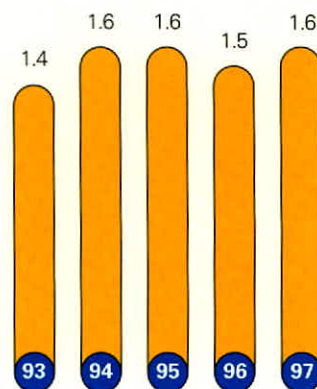
Reserve additions replaced 117% of production

Net proved reserves of crude oil and NGLs increased by 62 million barrels or four percent in 1997, mainly as a result of reserve additions from Syncrude's Aurora mine. Net proved reserves grew to 1,588 million barrels at year-end from 1,526 million at the end of 1996 (1995 – 1,573 million).

Net proved natural gas reserves declined to 1,612 billion cubic feet from 1,872 billion at the end of 1996 (1995 – 2,118 billion). This was largely the result of gas production and the sale of producing properties.

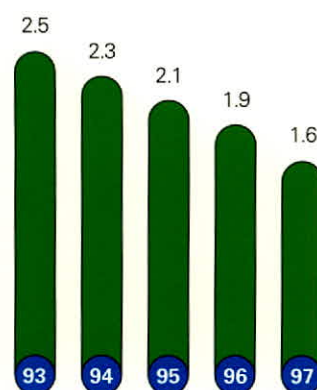
At year-end, the company's total oil-equivalent reserves stood at 1.9 billion barrels. Reserve additions during the year replaced 117 percent of production on an oil-equivalent basis.

crude oil and NGLs – net proved reserves (billions of barrels)



Net proved reserves of oil increased in 1997, as additions from Syncrude more than offset production and asset sales.

natural gas – net proved reserves (trillions of cubic feet)



Net gas reserves declined to 1.6 trillion cubic feet because of production and asset sales.

Improved industry margins
and increased sales volumes
doubled earnings



petroleum products

Net earnings from petroleum products doubled in 1997 to \$297 million from \$146 million in 1996 (1995 – \$186 million). The improvement resulted mainly from higher industry margins and increased sales. Return on capital employed increased to 12.4 percent, the first time in nearly a decade that overall returns in this segment have exceeded 10 percent.

Revenues were \$8.8 billion, unchanged from the previous year (1995 – \$7.9 billion).

Canadian consumption of petroleum products, excluding chemical feedstocks, increased by about four percent in 1997. The company's total sales volumes were 75 million litres a day, up slightly from 74.4 million the previous year (1995 – 72.4 million). Domestic sales were essentially unchanged.

The company's strategy is to increase sales through higher-margin Esso-branded channels and to U.S. wholesale markets that provide more attractive returns than domestic alternatives because of their proximity to the company's refineries. In 1997, sales of Esso-branded gasoline, heating, diesel and jet fuels increased to more than 76 percent of total domestic sales of these products.

Total company sales of gasoline decreased to 31.2 million litres a day from 31.5 million in 1996 (1995 – 30.8 million). Gasoline sales through Esso service stations, which represent about 60 percent of total gasoline sales, were up slightly.

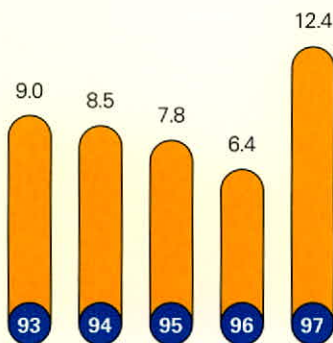
factors affecting earnings from petroleum products



financial statistics (millions of dollars)

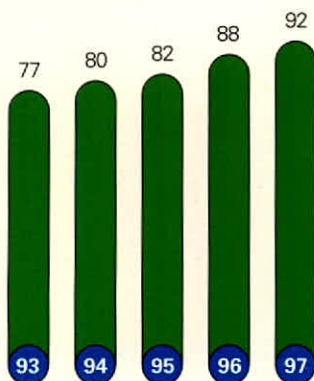
	1997	1996	1995	1994	1993
Earnings	297	146	186	212	238
Revenues	8 778	8 798	7 899	7 451	7 328
Capital expenditures					
Marketing	75	107	116	93	82
Refining and distribution	93	64	93	133	71
Total capital expenditures	168	171	209	226	153
Capital employed at December 31	2 468	2 332	2 286	2 507	2 492
Return on average capital employed (percent)	12.4	6.4	7.8	8.5	9.0

petroleum products –
return on average
capital employed
(percent)



Return on average capital employed increased to 12.4 percent, reaching double digits for the first time in nearly a decade.

utilization of total
refinery capacity
(percent)



Refinery utilization rose to 92 percent of capacity, the highest level since 1989.

Sales of distillate products – which include heating oil, diesel fuel and jet fuel – increased three percent to 26.2 million litres a day from 25.5 million in 1996 (1995 – 24.2 million).

Sales of heating oil were down by four percent from the previous year. The reduction was due to weather effects and the continuing erosion in the share of the home-heating market supplied by oil.

Sales of diesel fuel increased by six percent, reflecting continued economic growth in the resource, construction and trucking industries. Sales of jet fuel increased by about one percent.

Asphalt sales rose 36%

The company's automated asphalt terminal at the Nanticoke refinery completed its first full year of operation in 1997, contributing to a 36-percent increase in asphalt sales. Manufacturing asphalt captures a higher value from the heavier components in each barrel of crude oil than does selling those components as heavy fuel oil. The company's production of heavy fuel oil decreased by nine percent in 1997.

Sales of lubricants and specialty products increased by 13 percent. Contributing to the increase were product introductions that included a new Esso brake fluid, designed to protect brake-system components, and a new automatic-transmission fluid.

During the year, Imperial passed the rigorous testing needed to qualify for a QS 9000 registration, the quality standard developed by North American vehicle manufacturers for suppliers to their industry. Imperial supplies Ford, General Motors, Chrysler and a number of truck-manufacturing companies with the gasoline and lubricating oils put into vehicles on their production lines and with lubricating oils for servicing at their dealerships. All of the company's quality management systems – from contracting to delivery – were assessed in the QS 9000 registration process.

The company also received Chrysler's Gold Pentastar award for outstanding performance in the supply of lubricant products.

Selling margins improved

Margins on petroleum product sales improved in 1997 from comparatively depressed levels the previous year. Even though prices for petroleum products were generally unchanged from the previous year, the cost of the crude oil used to manufacture products declined steadily throughout 1997. As a result, margins improved by about one cent a litre. That improvement accounted for about \$135 million of the increase in earnings.

Operating expenses were essentially unchanged from the previous year. Unit costs fell slightly because of higher sales volumes.

The company continued its program of improving the productivity of its refining operations. Refinery utilization increased to an average of 92 percent in 1997, up from 88 percent in 1996 (1995 – 82 percent), reaching its highest level since 1989.

Retail network strengthened

In marketing, the company continued to strengthen its coast-to-coast network of Esso service stations. During the year, 136 less-productive sites were closed or debranded, while 25 sites were opened, bringing the total number of Esso stations to 2,623 at year-end.

Of that total, 1,023 stations were company owned or leased. During 1997, Imperial invested \$45 million in the company-owned network, which included building four new sites, completely rebuilding 13 and upgrading another 19 sites. Forty-two company sites were closed or debranded.

Tiger Express stores continue to form a key element of the company's retail strategy. Tiger Express stores combine convenience store items, a nationally recognized fast-food outlet and a banking machine to provide an attractive package of one-stop features for motorists. By the end of 1997, the number of Tiger Express stores had increased to 260 from 240 at the same time in 1996. In total, the company owns 710 convenience stores of various types at Esso stations across the country, making it one of the largest operators of convenience stores in Canada.

sales volumes (millions of litres a day) ^(1,2)

	1997	1996	1995	1994	1993
Gasolines	31.2	31.5	30.8	31.2	31.4
Heating, diesel and jet fuels	26.2	25.5	24.2	24.8	23.6
Heavy fuel oils	5.1	5.7	6.3	6.4	6.2
Liquefied petroleum gas, lube oils and other products	12.5	11.7	11.1	12.1	12.6
Total petroleum products	75.0	74.4	72.4	74.5	73.8
Total domestic sales of petroleum products (percent)	92.1	92.9	94.2	94.1	94.7

refinery utilization (millions of litres a day) ⁽²⁾

Total refinery throughput ⁽³⁾	71.3	68.9	67.3	68.2	65.9
Refinery capacity at December 31	77.8	77.8	78.4	85.4	85.4
Utilization of total refinery capacity (percent)	92	88	82	80	77

(1) Excludes sales made under purchase and sale agreements with other companies (see page 33, revenues).

(2) Volumes a day are calculated by dividing total volumes for the year by the number of days in the year.

(3) Crude oil and feedstocks sent directly to atmospheric distillation units.

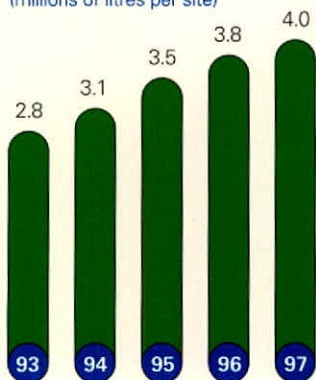
One thousand litres is approximately 6.3 barrels.

Esso service stations (average number)



While the total number of Esso service stations fell, the company invested \$45 million to increase productivity.

service station throughput – company-owned and leased stations (millions of litres per site)



The productivity of company-owned stations rose for the sixth consecutive year, reaching 4 million litres a site in 1997.

The number of company-owned car washes increased to 435 in 1997 from 429 the previous year, the largest network of car washes in the country.

Productivity again improved

Overall, average throughput per company-owned service station increased to 4 million litres a year, up from 3.8 million in 1996 (1995 – 3.5 million). That represented the sixth year in a row of productivity increases.

In October, Imperial launched a major gasoline marketing program that built on the company's sponsorship of Canada's Olympic athletes, in particular the men's and women's hockey teams. The promotion, which featured nearly \$1 million in prizes, had garnered more than 10 million entries by the time the Olympics began.

Imperial was the overall winner in the second annual Canadian service-station awards sponsored by *Octane* magazine and the International Service-Station Merchandising Association. The company won eight first-place, two second-place and four third-place prizes out a total of 29 awards. The awards were for items such as product displays, merchandising, and overall store and station appearance.

Capital expenditures in 1997 were \$168 million, compared with \$171 million in 1996 (1995 – \$209 million). The expenditures included investments to upgrade the service-station network, improve refinery efficiency and reliability, increase production of low-sulphur diesel fuel and improve the environmental performance of other refined products.

At the end of 1997, regulatory authorities approved an application by Interprovincial Pipe Line Inc. to reverse its Sarnia-Montreal pipeline. This will give the company's Ontario refineries access to imported crude oil, which is expected to improve their competitiveness. The reversal could be completed in the fall of 1998.

Capital expenditures in 1998 are estimated to be approximately \$150 million. About half that amount will be spent on refining operations to increase yields of high-value products such as the next generation of high-quality lubricants. Much of the remainder will be used to improve and streamline the company's marketing network. In addition, a new customer call centre will be opened in Moncton, N.B., to provide better, more efficient customer service.

Chemical earnings reached record levels and return on capital employed rose to 63 percent



chemicals

Chemical earnings increased to a record \$128 million in 1997 from \$68 million in 1996 (1995 – \$114 million).

Results in 1997 included a gain of \$36 million on the fourth-quarter sale of the company's interest in a chemical technology venture. Higher polyethylene margins and increased sales volumes in major product lines also contributed to the improvement.

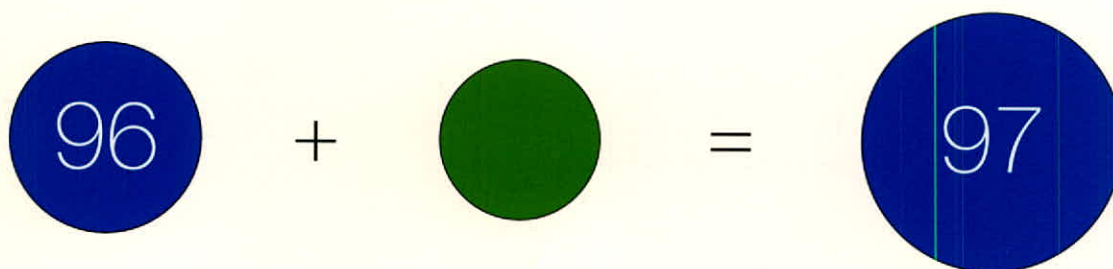
Return on average capital employed increased in 1997 to 63 percent from 35 percent in 1996 (1995 – 57 percent), consistent with the increase in earnings.

Total chemical revenues increased to \$1,044 million from \$875 million in 1996 (1995 – \$894 million). Excluding the \$52 million in revenues received from the sale of the technology venture, the remaining increase was primarily due to higher product prices.

Petrochemical prices increased

Average industry polyethylene prices were \$1,355 a tonne in 1997, up from \$1,180 a tonne in 1996 (1995 – \$1,292). Prices for the company's other petrochemical products such as polyvinyl-chloride resin, solvents and plasticizer intermediates were also generally higher.

factors affecting earnings from chemicals



1996 earnings from chemicals
were \$68 million

The sale of Imperial's interest
in a chemical technology venture,
improved margins and increased sales
added \$60 million to earnings

1997 earnings from chemicals
rose to a record \$128 million

financial statistics (millions of dollars)

	1997	1996	1995	1994	1993
Earnings	128	68	114	52	35
Revenues	1 044	875	894	805	969
Capital expenditures	25	20	13	24	24
Capital employed at December 31	194	210	178	221	546
Return on average capital employed (percent)	63.4	35.1	57.1	13.6	6.3

sales volumes (thousands of tonnes a day)

Polymers & basic chemicals	2.2	2.1	2.0	1.8	1.9
Intermediates, Paramins and other	1.2	1.1	1.1	1.1	1.0
Total	3.4	3.2	3.1	2.9	2.9

One tonne is approximately 1.1 short tons or 0.98 long tons.

Petrochemical margins increased

Margins for most of the company's petrochemical products increased as selling prices rose by more than raw-material costs.

Sales of petrochemicals increased to 3,400 tonnes a day from 3,200 in 1996 (1995 – 3,100). Gains were achieved in all major product lines.

Operating costs increased by four percent from the previous year, compared with a six-percent increase in sales volumes. As a result, unit costs on company-manufactured products decreased by five percent.

Polyethylene plant expanded

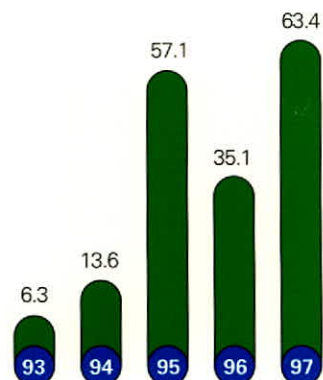
Capital expenditures were \$25 million in 1997, up from \$20 million in 1996 (1995 – \$13 million).

The funds were used primarily for further expansion of the company's polyethylene plant in Sarnia. The plant, which began operation in 1983 with an initial capacity of 135,000 tonnes of resin a year, has been expanded in a series of low-cost increments that have made it one of the most efficient producers of polyethylene in North America. The latest investment, completed in September, increased capacity by an additional 20 percent to 360,000 tonnes a year, nearly triple the initial capacity.

The plant specializes in resins for the injection moulding and roto-moulding industries. Injection moulding is a manufacturing technique used for products such as pails and food savers, while roto-moulding is used for much larger products such as plastic playground slides.

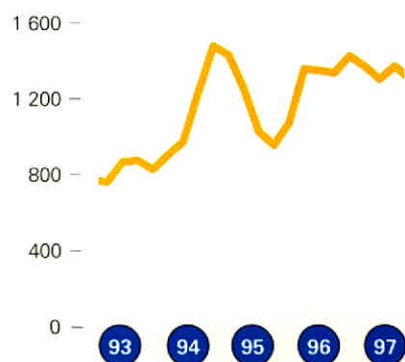
Planned expenditures in 1998 are about \$30 million, including the start of a project that will eventually add 60,000 tonnes a year to ethylene and polyethylene capacity.

chemicals – return on average capital employed (percent)



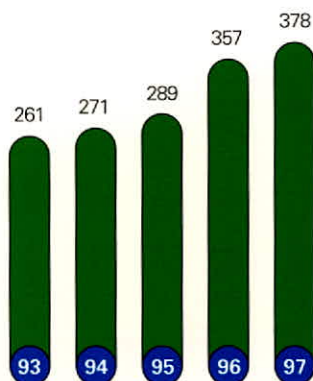
Return on average capital employed in chemicals increased to 63 percent in 1997, as earnings rose and capital employed was reduced.

polyethylene – average industry prices (Canadian dollars a tonne)



Polyethylene prices were higher on average than during the previous year.

polyethylene sales volumes (thousands of tonnes)



Sales of polyethylene, a key chemical product, increased as a 20-percent expansion of the Sarnia plant was completed late in the year.

The company's environmental and safety performance improved in 1997



environment, health and safety

Imperial's commitment to environmental responsibility and to safeguarding the health and safety of employees, contractors, customers and the public was reflected in improved environmental and safety performance in 1997. The company made capital expenditures of \$40 million on environmental and safety-related projects.

The rate of safety-related incidents involving company employees was unchanged from 1996 and continues to be among the best in Canadian industry. Among other accomplishments, the company's distribution operations surpassed five million work-hours, or more than three years, without a lost-time incident. In addition, the company's chemical business received an excellence in safety award from the Canadian Chemical Producers' Association, recognizing outstanding safety performance over the last five years.

The number and rate of incidents involving contractors were both lower than in 1996. Unfortunately, however, one incident resulted in a contractor fatality.

The number of potentially hazardous operating incidents such as spills and fires decreased significantly in 1997, due to more stringent application of the company's operations integrity management system, which provides a disciplined approach to operating facilities reliably and safely. All operating facilities also continued to test their ability to respond to incidents by simulating emergencies both on their own and in cooperation with other response organizations.

The number of environmental compliance notifications (occasions when substance releases from company facilities temporarily exceeded government guidelines) decreased in 1997, continuing a downward trend.

Imperial reports annually to the federal government under the National Pollutant Release Inventory (NPRI) program on ongoing emissions and other releases to the air, land and water. The company's most recent NPRI report, covering 1996 operations, showed a nine-percent reduction in such emissions and releases compared with the previous report, reflecting continued improvement in company operations.

Imperial works hard to reduce hazardous and other wastes generated by its operations. Levels of oil in refinery waste-water discharges remained well below the regulatory limit throughout 1997, while the amount of hazardous waste sent from manufacturing operations for off-site disposal continued to decline. Also, improved technologies for cleaning up decommissioned service stations, refineries, and oil and gas wells resulted in lower costs, minimized land-surface disturbance and less soil being moved for disposal at third-party locations.

In keeping with its commitment to environmental responsibility, Imperial works actively, both on its own and through industry associations, to help governments find practical, cost-effective and risk-based solutions to Canadian air-quality concerns related to its products, facilities and operations. To help reduce smog, Imperial and other Canadian refiners have progressively lowered the volatility of gasoline sold during summer and installed systems to recover evaporative emissions at distribution facilities. Companies have also invested to produce low-sulphur diesel fuel and are investing to reduce the benzene content of gasoline. All these actions are contributing to the measured improvement in Canadian air quality.

Imperial supports Canada's Voluntary Challenge and Registry (VCR) program as the most appropriate public-policy response to the climate-change issue. Its 1997 VCR submission reported that total greenhouse-gas emissions from company operations during 1996 were about the same as in 1990. Good progress was made in refining operations, where energy efficiency improved by seven percent between 1994 and 1996.

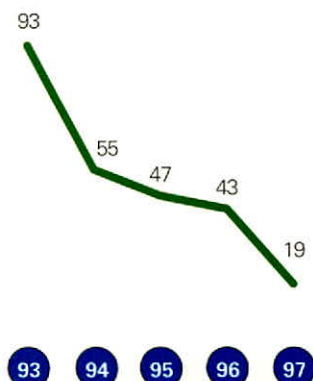
employee and contractor safety performance

(total recordable incidents per 200,000 hours worked)



Employee safety performance continued to be among the best in industry in 1997, while overall contractor safety performance improved.

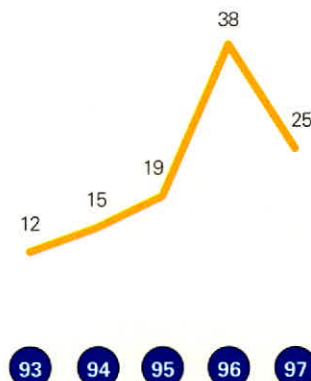
environmental compliance notifications



The number of occasions when releases from company facilities temporarily exceeded government guidelines fell by more than half in 1997.

operating incidents

(costing more than \$35,000)



Potentially hazardous operating incidents decreased significantly in 1997.

NPRI emissions and transfers

(thousands of tonnes)



Emissions of substances used in the company's operations continued to decline.

management report

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared by management in accordance with generally accepted Canadian accounting principles and include certain estimates that reflect management's best judgments. Financial information contained throughout this annual report is consistent with these financial statements.

Management has developed and maintains a system of internal control that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the company's operating and financial results, and that the company's assets are safeguarded. The company's internal audit unit reviews and evaluates the adequacy of and compliance with the company's internal controls. As well, it is the policy of the company to maintain the highest standard of ethics in all its activities.

Imperial's board of directors has approved the information contained in the financial statements. The board fulfills its responsibility regarding the financial statements mainly through its audit committee, details of which are provided on page 47.

Price Waterhouse, an independent firm of chartered accountants, was appointed by a vote of shareholders at the company's last annual meeting to examine the consolidated financial statements and provide an independent professional opinion.



R.B. Peterson



D.J. Cacchio

February 19, 1998

auditors' report

To the shareholders of Imperial Oil Limited

We have audited the consolidated statements of earnings and of cash flows of Imperial Oil Limited for each of the three years in the period ended December 31, 1997, and the consolidated balance sheets as at December 31, 1997, and 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the company for each of the three years in the period ended December 31, 1997, and its financial position as at December 31, 1997, and 1996, in accordance with generally accepted accounting principles in Canada.



Chartered Accountants
Royal Trust Tower
Toronto-Dominion Centre

Toronto, Ontario
February 19, 1998

consolidated statement of earnings

millions of dollars

For the years ended December 31

	1997	1996	1995	1994	1993
Revenues					
Operating revenues	10 669	10 377	9 428	8 892	8 754
Investment and other income (3)	453	124	172	102	84
Total revenues	11 122	10 501	9 600	8 994	8 838
Expenses					
Exploration	40	45	75	46	52
Purchases of crude oil and products	4 806	4 743	3 853	3 538	3 325
Operating	2 745	2 699	2 666	2 746	2 801
Federal excise tax	1 157	1 143	1 120	1 019	986
Depreciation and depletion	685	703	755	773	834
Financing costs (13)	162	235	208	172	177
Total expenses	9 595	9 568	8 677	8 294	8 175
Unusual items (2)	—	—	—	(47)	(95)
Earnings before income taxes	1 527	933	923	653	568
Income taxes on earnings (7)	680	469	409	294	289
Income tax refunds (7)	—	(322)	—	—	—
Total income taxes expense	680	147	409	294	289
Net earnings	847	786	514	359	279
Per-share information (dollars)					
Net earnings ^(a)	5.50	4.47	2.67	1.85	1.44
Dividends	2.20	2.05	1.90	4.80	1.80

(a) Per-share information is calculated by dividing net earnings by the average number of shares outstanding, weighted monthly (page 44).

The summary of significant accounting policies and the notes, found on pages 32 through 41, are part of these consolidated financial statements.

Certain figures for prior years have been reclassified in the financial statements to conform with the current year's presentation. There is no effect on earnings.

consolidated statement of cash flows

millions of dollars
inflow (outflow)

For the years ended December 31	1997	1996	1995	1994	1993
Operating activities					
Net earnings	847	786	514	359	279
Exploration expenses ^(a)	40	45	75	46	52
Depreciation and depletion	685	703	755	773	834
After-tax (gain)/loss from asset sales and writedowns (2) (3)	(179)	19	3	6	47
Deferred income taxes and other	34	(104)	(39)	(38)	(45)
Cash flow from earnings ^(b)	1 427	1 449	1 308	1 146	1 167
Accounts receivable	40	(124)	39	(119)	111
Inventories and prepaids	(77)	(16)	9	(44)	77
Current liabilities	(404)	440	334	(156)	37
Other	1	(13)	(47)	(44)	46
Change in operating assets and liabilities ^(c)	(440)	287	335	(363)	271
Cash from operating activities	987	1 736	1 643	783	1 438
Investing activities					
Capital and exploration expenditures ^(a)	(639)	(564)	(570)	(540)	(538)
Proceeds from asset sales ^(c)	968	177	135	559	122
Marketable securities – net	(1)	357	481	14	(117)
Promissory notes of Exxon Corporation subsidiary – net (15)	–	1 191	(1 191)	–	–
Cash from (used in) investing activities	328	1 161	(1 145)	33	(533)
Cash flow before financing activities	1 315	2 897	498	816	905
Financing activities					
Repayment of long-term debt	(91)	(476)	(40)	(82)	(216)
Common shares purchased (10)	(694)	(1 772)	(236)	–	–
Dividends paid	(343)	(361)	(358)	(930)	(349)
Cash used in financing activities	(1 128)	(2 609)	(634)	(1 012)	(565)
Increase (decrease) in cash	187	288	(136)	(196)	340
Cash at beginning of year	561	273	409	605	265
Cash at end of year ^(d)	748	561	273	409	605

(a) Exploration expenses, deducted in arriving at net earnings, are reclassified and included in investing activities in the consolidated statement of cash flows.

(b) Includes dividends received from equity investments of \$12 million (1996 – \$10 million; 1995 – \$14 million).

(c) In 1994, proceeds from receivables and inventory that were sold with the fertilizer business were classified as proceeds from asset sales.

(d) Total cash and short-term securities at December 31, 1997, were \$770 million (1996 – \$582 million; 1995 – \$1,842 million). Cash represents cash in the bank and cash equivalents at cost, plus accrued interest. Cash equivalents are all highly liquid securities with a maturity of three months or less when purchased.

consolidated balance sheet

millions of dollars

At December 31	1997	1996	1995	1994	1993
Assets					
Current assets					
Cash	748	561	273	409	605
Marketable securities at amortized cost (11)	22	21	378	859	874
Promissory notes of Exxon Corporation subsidiary (15)	—	—	1 191	—	—
Accounts receivable	1 090	1 130	1 006	1 045	954
Inventories of crude oil and products (12)	466	398	385	384	402
Materials, supplies and prepaid expenses	102	93	90	100	129
Total current assets	2 428	2 203	3 323	2 797	2 964
Investments and other long-term assets	203	225	254	264	152
Property, plant and equipment (1)	7 172	7 814	8 170	8 538	9 389
Goodwill	257	282	305	329	356
Total assets	10 060	10 524	12 052	11 928	12 861
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities (15)	1 564	1 596	1 511	1 299	1 224
Income taxes payable	594	781	418	284	436
Total current liabilities	2 158	2 377	1 929	1 583	1 660
Long-term debt (4)	1 506	1 542	1 968	1 975	2 028
Other long-term obligations (5)	1 013	1 057	1 097	1 148	1 149
Commitments and contingent liabilities (9)					
Total liabilities	4 677	4 976	4 994	4 706	4 837
Deferred income taxes	1 000	981	1 150	1 227	1 458
Shareholders' equity					
Common shares at stated value (10)	2 293	2 441	2 903	2 977	2 977
Net earnings retained and used in the business					
At beginning of year	2 126	3 005	3 018	3 589	3 659
Net earnings for the year	847	786	514	359	279
Share purchases (10)	(546)	(1 311)	(162)	—	—
Dividends	(337)	(354)	(365)	(930)	(349)
At end of year	2 090	2 126	3 005	3 018	3 589
Total shareholders' equity	4 383	4 567	5 908	5 995	6 566
Total liabilities, deferred income taxes and shareholders' equity	10 060	10 524	12 052	11 928	12 861

Approved by the directors



Chairman, president and
chief executive officer



Senior vice-president,
finance and administration

summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Imperial Oil Limited and its subsidiaries. Intercompany accounts and transactions are eliminated. Significant subsidiaries included in the consolidated financial statements include Imperial Oil Resources Limited, Imperial Oil Resources N.W.T. Limited, Imperial Oil Resources Ventures Limited and McColl-Frontenac Petroleum Inc.

A significant portion of the company's activities in natural resources is conducted jointly with other companies. The accounts reflect the company's proportionate interest in such activities, including its 25-percent interest in the Syncrude joint venture.

Inventories

Inventories are recorded at the lower of cost or net realizable value. The cost of crude oil and products is determined primarily using the LIFO (last-in, first-out) method. Costs include purchase costs and other applicable operating expenses. Selling and general administrative expenses are excluded.

Investments

The principal investments in companies other than subsidiaries are accounted for using the equity method. These represent interests in nonpublicly traded crude oil pipeline companies. They are recorded at the original cost of the investment plus Imperial's share of earnings since the investment was made, less dividends received. Imperial's share of the after-tax earnings of these companies is included in "investment and other income" in the consolidated statement of earnings. Other investments are recorded at cost. Dividends from other investments are recorded as income.

Property, plant and equipment

Property, plant and equipment are recorded at cost.

The company follows the successful-efforts method of accounting for its exploration and development activities. Under this method, costs of exploration acreage are capitalized and amortized over the period of exploration or until a discovery is made. Costs of exploration wells are capitalized until their success can be determined. If the well is successful, the costs remain capitalized; otherwise they are expensed. Capitalized exploration costs are reevaluated annually. All other exploration costs are expensed as incurred. Development costs, including the cost of natural gas and natural gas liquids used as injectants in enhanced (tertiary) oil-recovery projects, are capitalized.

Maintenance and repair costs are expensed as incurred. Improvements that increase or prolong the service life or capacity of an asset are capitalized.

Investment tax credits and other similar grants are treated as a reduction of the capitalized cost of the asset to which they apply.

Depreciation and depletion (the allocation of the cost of assets to expense over the period of their useful lives) are calculated using the unit-of-production method for producing properties. Depreciation of other plant and equipment is calculated using the straight-line method, based on the estimated service life of the asset. In general, refineries are depreciated over 25 years; other major assets, including chemical plants and service stations, are depreciated over 20 years.

Gains or losses on assets sold are included in "investment and other income" in the consolidated statement of earnings.

Goodwill

Goodwill is charged to earnings on a straight-line basis over the period of expected continuing value, to a maximum of 20 years. The amortization of goodwill is included in depreciation and depletion expense. The evaluation for impairment of goodwill is based on a comparison of the carrying values of goodwill and associated operating assets with the estimated undiscounted net cash flows from those operating assets.

Site-restoration costs

Provision for site-restoration costs (net of any expected recoveries) is made if they can be reasonably determined. This provision is based on engineering estimates of costs, taking into account the anticipated method and extent of remediation consistent with legal requirements, industry practices, current technology and the possible use of the site. For natural resources assets, accruals are made over the useful life of the asset using the unit-of-production method. For other assets, a provision is made at the time management approves the sale or closure of a facility.

Foreign-currency translation

Monetary assets and liabilities receivable or payable in foreign currencies have been translated at the rates of exchange prevailing on December 31. Unrealized exchange gains and losses arising from the translation of long-term debt are deferred and amortized over the remaining term of the debt.

Financial instruments

Financial instruments are initially recorded at historical cost. If subsequent circumstances indicate that a decline in the fair value of a financial asset is other than temporary, the financial asset is written down to its fair value. Unless otherwise indicated, the fair values of financial instruments approximate their recorded amounts.

The fair values of cash, marketable securities, accounts receivable and current liabilities approximate recorded amounts because of the short period to receipt or payment of cash. The fair value of the company's long-term debt is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the company for debt of the same duration to maturity. The fair values of other financial instruments held by the company are estimated primarily by discounting future cash flows using current rates for similar financial instruments under similar credit risk and maturity conditions.

The company's use of and method of accounting for derivative financial instruments are described in note 6 to the consolidated financial statements.

Revenues

Certain purchases and sales of crude oil and products are undertaken to improve the company's operating efficiency. Some of the company's crude oil production is sold and other types of crude oil are purchased to optimize refining operations. Product purchase and sale agreements with other companies help Imperial meet its supply requirements while reducing transportation and other costs. Such sales and purchases are offset in the consolidated statement of earnings.

Consumer taxes and Crown royalties

Taxes levied on the consumer and collected by the company are excluded from the consolidated statement of earnings. These are primarily provincial taxes on motor fuels and the federal goods and services tax. Crown royalties are also excluded.

Interest costs

Interest costs are expensed as incurred and included as financing costs in the statement of earnings.

Accounting principles

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. *Form 10-K*, filed with the United States Securities and Exchange Commission, includes a description of the differences between the generally accepted accounting principles in Canada and those accepted in the United States as they apply to the company.

notes to consolidated financial statements

1. Business segments

millions of dollars	Natural resources ^(a)			Petroleum products		
	1997	1996	1995	1997	1996	1995
Revenues						
External sales ^(c)	1 165	990	904	8 548	8 562	7 685
Intersegment sales	1 346	1 511	1 364	220	224	196
Investment and other income (note 3)	334	(7)	(1)	10	12	18
Total revenues	2 845	2 494	2 267	8 778	8 798	7 899
Expenses						
Exploration	40	45	75	—	—	—
Purchases of crude oil and products	595	487	412	5 232	5 522	4 571
Operating	845	826	806	1 657	1 652	1 623
Federal excise tax	—	—	—	1 157	1 143	1 120
Depreciation and depletion ^(d)	446	467	499	211	207	233
Financing costs	2	5	4	1	1	1
Total expenses	1 928	1 830	1 796	8 258	8 525	7 548
Earnings before income taxes	917	664	471	520	273	351
Income taxes (note 7)						
Current	477	378	350	176	204	178
Deferred	(26)	(47)	(112)	47	(77)	(13)
Total income taxes on earnings	451	331	238	223	127	165
Income tax refunds	—	—	—	—	—	—
Total income taxes expense	451	331	238	223	127	165
Net earnings	466	333	233	297	146	186
Cash flow from earnings	771	814	704	589	276	405
Capital and exploration expenditures	433	352	330	168	171	209
Property, plant and equipment						
Cost	8 054	9 264	9 378	4 566	4 494	4 414
Accumulated depreciation and depletion	3 789	4 394	4 196	2 296	2 185	2 072
Net property, plant and equipment	4 265	4 870	5 182	2 270	2 309	2 342
Total assets	4 635	5 344	5 543	4 010	4 079	3 923
Total capital employed	2 618	3 403	3 548	2 468	2 332	2 286

(a) A significant portion of activities in the natural-resources segment is conducted jointly with other companies. The natural resources segment includes the company's proportionate share of joint-venture activities as follows:

millions of dollars	1997	1996	1995
Total revenues	1 669	1 399	1 294
Total expenses	967	1 062	1 116
Net earnings, after income taxes	332	140	39
Total current assets	271	307	207
Long-term assets	2 546	3 239	3 659
Total current liabilities	655	503	415
Other long-term obligations	136	164	182
Cash flow from earnings	514	479	381
Cash from operating activities	539	469	393
Cash (used in) investing activities	(219)	(144)	(134)

(b) Information is presented as though each segment were a separate business activity. Intersegment sales are made essentially at prevailing market prices. Consolidated amounts exclude intersegment transactions, as follows:

millions of dollars	1997	1996	1995
Purchases of crude oil and products	1 601	1 777	1 598
Operating expenses	16	22	25
Total intersegment sales	1 617	1 799	1 623
Intersegment receivables and payables	172	278	168

	Chemicals			Corporate and other			Consolidated ^(b)		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
	950	820	834	6	5	5	10 669	10 377	9 428
	42	55	53	9	9	10	–	–	–
	52	–	7	57	119	148	453	124	172
	1 044	875	894	72	133	163	11 122	10 501	9 600
	–	–	–	–	–	–	40	45	75
	578	511	466	2	–	2	4 806	4 743	3 853
	233	224	211	26	19	46	2 745	2 699	2 666
	–	–	–	–	–	–	1 157	1 143	1 120
	28	29	28	–	–	–	685	703	755
	–	–	–	159	229	203	162	235	208
	839	764	705	187	248	251	9 595	9 568	8 677
	205	111	189	(115)	(115)	(88)	1 527	933	923
	78	51	77	(69)	4	(119)	662	637	486
	(1)	(8)	(2)	(2)	(36)	50	18	(168)	(77)
	77	43	75	(71)	(32)	(69)	680	469	409
	–	–	–	–	(322)	–	–	(322)	–
	77	43	75	(71)	(354)	(69)	680	147	409
	128	68	114	(44)	239	(19)	847	786	514
	119	89	135	(52)	270	64	1 427	1 449	1 308
	25	20	13	13	21	18	639	564	570
	611	593	580	584	591	602	13 815	14 942	14 974
	361	340	319	197	209	217	6 643	7 128	6 804
	250	253	261	387	382	385	7 172	7 814	8 170
	425	407	400	1 162	972	2 354	10 060	10 524	12 052
	194	210	178	611	191	1 867	5 891	6 136	7 879

(c) Includes export sales to the United States, as follows:

millions of dollars	1997	1996	1995
Natural resources	259	297	299
Petroleum products	433	416	238
Chemicals	447	462	446
Total export sales	1 139	1 175	983

(d) Includes \$27 million of goodwill charged to earnings in 1997 (1996 – \$25 million; 1995 – \$27 million).

The accumulated amortization of goodwill at December 31, 1997, is \$220 million (1996 – \$195 million; 1995 – \$166 million). Depreciation of corporate segment assets of \$16 million (1996 – \$16 million; 1995 – \$18 million) has been allocated to the operating segments that benefit from those assets.

The company operates its business in Canada, in the following industry segments:

Natural resources includes the exploration for and production of crude oil and natural gas.

Petroleum products consists of the refining of crude oil into petroleum products and the distribution and marketing of these products.

Chemicals consists of the manufacturing and marketing of various hydrocarbon-based chemicals and chemical products.

Corporate and other includes assets and liabilities that do not specifically relate to business segments – primarily cash, marketable securities, various investments and long-term debt. Net earnings in this category include income and gains from investments and financing costs.

Segment accounting policies are the same as those described in the Summary of Significant Accounting Policies. Natural resources, petroleum products and chemicals operating expenses include amounts allocated from the corporate and other segment. The allocation is based on a combination of fee for service, proportional segment operating expenses and a three-year average of capital expenditures. Transfers of assets between segments are recorded at book amounts. Items included in capital employed that are not identifiable by segment are allocated according to their nature.

2. Unusual items

In 1994, there was a \$47-million (\$31 million after tax) charge mainly to cover the cost of workforce reductions of 500 people in the natural resources division. The charge also included the company's 25-percent share of workforce reductions at Syncrude Canada Limited. The \$8-million (\$5 million after tax) unused portion of the workforce-reduction provision was added back to earnings in 1997.

In 1993, a \$95-million (\$54 million after tax) charge was made for the writedown of refinery assets and for dismantling, site restoration and employee-related costs resulting from the shutdown of refining operations at loco, near Vancouver, in 1995. The provision remaining at December 31, 1997, was \$32 million, and relates to dismantling and site-restoration activities. Dismantling is expected to be completed in 2000.

3. Investment and other income

In 1997, gains on asset sales were \$376 million (\$179 million after tax). In 1996, losses of \$8 million (\$19 million after tax) were recorded on the sale of assets (1995 – \$9-million gain before tax; \$3-million loss after tax). The 1997 amount includes a \$188-million (\$72 million after tax) gain on the sale of the Judy Creek and Swan Hills producing properties and related facilities, a \$45-million (\$26 million after tax) gain on the sale of the Leduc producing properties and a gain of \$52 million (\$36 million after tax) on the sale of the company's interest in a chemical technology venture to Exxon Corporation.

4. Long-term debt

			1997	1996
issued	maturity date	interest rate	millions of dollars	
Sinking-fund debentures ^(a)				
1989	October 15, 2019 (1997 – \$222 million (U.S.); 1996 – \$222 million (U.S.))	8 ¾	318	304
Other debentures and notes ^(a)				
1989	December 15, 1999 ^(b)	9 7/8	215	215
1989	September 1, 2004 (1997 – \$600 million (U.S.); 1996 – \$650 million (U.S.)) ^(c)	Variable	858	891
1991	August 20, 2001 (1997 – \$200 million (U.S.); 1996 – \$200 million (U.S.))	8.3	286	274
Long-term debt (at period-end exchange rates)			1 677	1 684
Foreign-exchange loss on U.S. \$ debt ^(d)			171	142
Total long-term debt ^{(e)(f)}			1 506	1 542

(a) No principal payments are due on sinking-fund debentures within the next five years; \$215 million of principal payments on other debentures and notes is due in 1999 and \$200 million (U.S.) is due in 2001.

(b) \$150 million of this debenture has both a U.S. dollar currency swap and an interest-rate swap transaction matched with it – see note 6(b). The effective interest rate on this \$150 million was 7.8 percent in 1997 (1996 – 7.7 percent).

(c) This debt bears interest based primarily on U.S. commercial paper interest rates and may be repaid in part or in full at any time before maturity without premium. The effective rate for 1997 was 5.5 percent (1996 – 5.5 percent).

(d) The foreign-exchange loss on U.S. dollar debt is being amortized to earnings over the remaining life of the debt.

(e) At December 31, 1997, the company had \$616 million of uncommitted, unused lines of credit available for short-term financing.

(f) The estimated fair value of the long-term debt at December 31, 1997, is \$1,757 million (1996 – \$1,759 million).

5. Other long-term obligations

millions of dollars	1997	1996
Employee retirement benefits (note 8)	491	542
Site restoration ^(a)	401	424
Other obligations	121	91
Total other long-term obligations	1 013	1 057

(a) Total site restoration also includes \$58 million in current liabilities (1996 – \$60 million).

6. Derivative financial instruments

Derivatives are only used to reduce specific risk exposures of the company and are not held for trading purposes. Derivatives with leveraged features are not used. This policy is implemented as follows:

(a) Crude oil, natural gas and product (energy) derivatives, and foreign-exchange forwards

The impact of price and foreign-exchange fluctuations on purchases and sales may be mitigated by selling and buying energy derivatives (primarily futures contracts and natural gas price swaps) and foreign-exchange forward contracts. These transactions are conducted on recognized commodities exchanges or with banks of the highest credit standing, and are normally settled in less than one year. Gains or losses on these contracts are recognized in earnings as a component of the related physical transaction.

At December 31, 1997 and 1996, there were no significant energy derivative contracts outstanding; no significant energy derivative contracts were transacted in 1997 and 1996. In 1995, losses of \$17 million were realized on closed energy derivatives to offset gains on physical positions.

At December 31, 1997, there were no foreign-exchange forward contracts outstanding to offset exchange fluctuations on purchase commitments denominated in U.S. dollars (1996 – \$16 million). Gains and losses on foreign-exchange forwards were minimal in each year.

(b) Interest and currency swap transactions

The company is a party to a currency and an interest-rate swap that are matched to \$150 million of the 9 7/8-percent (Canadian) debenture, effectively converting this to a \$126 million (U.S.) floating-interest-rate debt (see note 4(b)). At the end of the currency swap the company will receive \$150 million (Canadian) and pay \$126 million (U.S.). In the interim, the currency swap involves the payment in U.S. dollars, and the receipt in Canadian dollars, of fixed interest-rate amounts. The interest-rate swap involves interest payments and receipts, both in U.S. dollars.

The U.S. dollar exposure created by the currency swap partially offsets the U.S. dollar-based crude oil component of revenues. The swaps are with counterparties of the highest credit standing.

Settlement of the swaps at December 31, 1997, would have resulted in a loss of \$26 million (Canadian) (1996 – \$11 million). A foreign-exchange loss of \$30 million on the currency swap (1996 – \$23 million) has been deferred and is being amortized as a financing cost over the remaining life of the debenture (see note 13). At December 31, 1997, the unamortized loss was \$14 million (1996 – \$11 million). A \$4-million increase in the market value (1996 – \$12-million increase) of the interest-rate component of the swaps, based on bond yields for instruments with similar terms to maturity, is not recorded in the financial statements because it is the company's intent to hold the swaps until the maturity of the 9 7/8-percent debenture. In 1997, the effect of the amounts paid and received on the swaps was to reduce interest expense by \$1 million to achieve an average rate of 7.8 percent (1996 – \$2-million reduction to 7.7 percent; 1995 – \$1-million reduction to 8.2 percent).

7. Income taxes

millions of dollars	1997	1996	1995
Summary of income tax calculations			
Earnings before income taxes	1 527	933	923
Deduct earnings from equity investments	22	25	15
Adjusted earnings	1 505	908	908
Basic corporate tax rate (percent)	44.7	44.8	44.7
Income taxes at basic rate	673	407	406
Increases (decreases) resulting from			
Nondeductible payments to governments	80	123	94
Resource allowance	(108)	(129)	(107)
Manufacturing and processing credit	(27)	(36)	(35)
Nondeductible depreciation and amortization	78	69	70
Other	(16)	35	(19)
Income taxes expense on earnings ^(a)	680	469	409
Increases (decreases) in deferred income taxes from timing differences			
Depreciation and amortization	(10)	(47)	(50)
Pensions and severance payments	1	1	26
Successful drilling, injectants and land acquisitions	(38)	(1)	(40)
LIFO inventory valuation	73	(78)	(13)
Other	(8)	(43)	—
Deferred income taxes expense	18	(168)	(77)
Current income taxes expense before income tax refunds	662	637	486
Income tax refunds ^(b)	—	(322)	—
Current income taxes expense net of income tax refunds	662	315	486

(a) The effective income tax rate on earnings was 45.2 percent in 1997 (1996 – 51.7 percent; 1995 – 45.0 percent). Cash income tax payments, after deducting investment tax credits, were \$854 million in 1997 (1996 – \$699 million; 1995 – \$351 million).

(b) During 1996, settlement was reached with Revenue Canada for an \$843-million federal tax refund including interest, relating to a number of outstanding taxation issues pertaining to the natural-resources business for the period 1974 to 1990. A portion of the refund was recognized in earnings in prior years and \$278 million was included in 1996 earnings.

In addition to the \$278 million recorded in earnings for the federal tax refund, a further \$44 million was recognized in 1996 for provincial tax refunds and related interest, for a total of \$322 million. The provincial tax refund amounts have not been finalized; this could result in an additional amount being recorded in future earnings.

The operations of the company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question. The company believes the provision made for income taxes is adequate.

8. Employee retirement benefits

Retirement benefits, which cover almost all retired employees and their surviving spouses, include retirement-income and certain health-care and life-insurance benefits. Retirement-income benefits are company paid and are based on years of service and final average earnings. They are met through funded registered retirement plans and through unfunded supplementary benefits that are paid directly to recipients. The company shares in the cost of health-care and life-insurance benefits.

The expense and obligations for both funded and unfunded benefits are determined in accordance with generally accepted accounting principles and actuarial procedures. The process for determining retirement-income expense and related obligations includes making certain long-term assumptions regarding the discount rate, return on plan assets and the rate-of-pay increases; for each of the last three years, these were assumed to be 10.0 percent, 10.0 percent and 5.0 percent, respectively.

Annual expense

millions of dollars	1997	1996	1995
Retirement-income expense	7	24	28
Other retirement-benefit expense	27	24	25
Total expense	34	48	53

Obligations at December 31

millions of dollars	1997	1996
Actuarial present value of retirement-income obligations		
Benefits based on service to date and present pay levels		
Registered-plan benefits	1 777	1 631
Supplementary benefits	170	291
Total accumulated benefit obligation	1 947	1 922
Additional benefits related to projected pay increases	222	234
Total projected benefit obligation	2 169	2 156
Funded assets at market value ^(a)	2 430	2 243
Net obligations or (surplus) for retirement-income benefits	(261)	(87)
Obligation for other retirement benefits	257	238
Net obligations or (surplus)	(4)	151
The net obligations (surplus) consist of		
Long-term liability (note 5)	491	542
Current liability	35	30
Unrecorded assets – net ^(b)	(530)	(421)
Total	(4)	151

(a) Assets of the retirement plans are held primarily in equity, fixed-income and money-market securities. Company contributions to the retirement plans are based on independent actuarial valuations and are made in accordance with government regulations. These contributions amounted to \$38 million in 1997 (1996 – \$15 million).

(b) Unrecorded assets are amortized over the expected average remaining service of employees, which is currently 16 years (1996 – 13 years).

Additional information regarding retirement benefits follows:

millions of dollars	Obligations at December 31	Annual expense
As calculated using company's assumptions	2 426	34
Impact of one-percent change in		
Rate of return and discount rate	240	45
Pay increases	50	10

9. Commitments and contingent liabilities

At December 31, 1997, the company had commitments for noncancellable operating leases and other long-term agreements that require the following minimum future payments:

millions of dollars	1998	1999	2000	2001	2002	after 2002
Operating leases ^{(a)(c)}	60	49	37	27	15	51
Other long-term agreements ^{(b)(c)}	261	239	216	166	56	172

(a) Total rental expense incurred for operating leases in 1997 was \$119 million (1996 – \$111 million; 1995 – \$111 million).

(b) Total payments under long-term agreements were \$375 million in 1997 (1996 – \$299 million; 1995 – \$301 million). As part of an agreement with Interprovincial Pipe Line (NW) Ltd. for the construction of a pipeline to the company's Norman Wells oil field, Imperial agreed to minimum pipeline charges to 2010, sufficient to service the debt associated with the pipeline. These amounts are included in the above table. The amount of that debt outstanding at December 31, 1997, was \$71 million.

(c) Operating lease commitments related to joint-venture activities are not material; payments under other long-term agreements related to joint-venture activities are approximately \$35 million a year.

As a condition of its 1989 acquisition of Texaco Canada, the company committed to the Government of Canada to supply agreed volumes of gasoline to independent marketers in Ontario and Quebec for periods of up to 10 years. The company is in compliance with these commitments.

The company's commitments in connection with financial derivatives are discussed in note 6. Other commitments for operating and capital needs, all arising in the normal course of business, do not materially affect the company's consolidated financial position.

The company provides in its financial statements for site-restoration costs (see accounting policy on page 33). Provision is not made with respect to those manufacturing, distribution and marketing facilities for which estimates of these future costs cannot be reasonably determined. These are primarily currently operated sites. These costs (net of any expected recoveries) are not expected to have a material effect on the company's consolidated financial position.

Various lawsuits are pending against Imperial Oil Limited and its subsidiaries. The actual liability with respect to these lawsuits is not determinable, but management believes, based on the opinion of counsel, that any liability will not materially affect the company's consolidated financial position.

10. Common shares

number of shares	1997	1996	1995
Authorized	225 000 000	225 000 000	225 000 000
Issued at December 31	149 328 323	158 963 199	189 010 521

In 1995 and 1996, the company purchased shares under two 12-month normal-course share-purchase programs. Also in 1996, the company undertook an auction tender in which 24 million shares were purchased at a total cost of \$1,440 million. On June 19, 1997, another 12-month normal-course program was implemented with an allowable purchase of 7,690,824 shares (five percent of the total at that date), less any shares purchased by the employee savings plan and company pension funds (33,500 to December 31, 1997). The results of these activities are as shown below.

Year	Purchased shares	Millions of dollars
1995	4 830 910	236
1996	30 047 323	1 772
1997	9 634 876	694
Cumulative purchases to date	44 513 109	2 702

Exxon Corporation's participation in the above maintained its ownership interest in Imperial at 69.6 percent, unchanged from 1996 and 1995.

The excess of the purchase cost over the stated value of shares purchased has been recorded as a distribution of retained earnings.

11. Marketable securities

At December 31, 1997, the company held \$22 million of Government of Canada treasury bills (1996 – \$21 million). These securities were purchased with the intent that they be held to maturity. The average yield on these securities in 1997 was 3.3 percent (1996 – 5.4 percent).

12. Inventories of crude oil and products

In 1997, net earnings included an after-tax gain of \$8 million (1996 – \$7-million gain; 1995 – \$4-million gain) attributable to the effect of changes in LIFO inventories. The replacement cost of inventories was estimated to exceed their LIFO carrying values at December 31, 1997, by \$469 million (1996 – \$737 million).

13. Financing costs

millions of dollars	1997	1996	1995
Debt-related interest	122	133	160
Other interest ^(a)	9	28	15
Total interest expense ^(b)	131	161	175
Foreign-exchange expense on long-term debt ^(c)	31	74	33
Total financing costs	162	235	208

(a) Settlement of a prior year claim against the company in 1996 resulted in a \$20-million charge (\$11 million after tax).

(b) Cash interest payments in 1997 were \$133 million (1996 – \$164 million; 1995 – \$175 million).

(c) In 1997, the company redeemed \$50 million (U.S.) of its long-term debt for \$67 million (Canadian), resulting in a \$6-million foreign-exchange expense (\$4 million after tax). In 1996, the company redeemed \$350 million (U.S.) for \$476 million (Canadian), resulting in a \$51-million foreign-exchange expense (\$33 million after tax). These items are included in the respective amounts for each year.

14. Research and development costs

Research and development costs in 1997 were \$96 million (1996 – \$73 million; 1995 – \$74 million) before investment tax credits earned on these expenditures of \$8 million (1996 – \$7 million; 1995 – \$8 million).

The net costs are included in expenses, due to the uncertainty of future benefits.

15. Transactions with Exxon Corporation and affiliated companies (Exxon)

Revenues and expenses of the company include the results of transactions with Exxon in the normal course of operations. These were conducted on terms as favorable as they would have been with unrelated parties, and primarily consisted of the purchase and sale of crude oil, petroleum and chemical products, as well as transportation, technical and engineering services. In 1997, the company also sold its interest in a chemical technology venture to Exxon for \$52 million (see note 3). A valuation by an independent third party confirmed that the selling price represented a fair market value for the technology venture. The amounts paid or received have been reflected in the following categories in the statement of earnings:

millions of dollars	1997	1996	1995
Operating revenues	282	289	300
Investment and other income	52	–	–
Purchases of crude oil and products	443	497	353
Operating expenses	85	82	58

Current amounts due to Exxon at December 31, 1997, with respect to the above transactions were \$85 million (1996 – \$105 million; 1995 – \$48 million).

In 1995, the company entered into agreements with a wholly-owned subsidiary of Exxon Corporation under which the company purchased Canadian-dollar discounted promissory notes at competitive Canadian interest rates. In 1996, the notes were repaid in full. Interest earned on the notes in 1996 was \$36 million (1995 – \$54 million).

16. Net payments to governments

millions of dollars	1997	1996	1995
Current income taxes (note 7)	662	315	486
Federal excise tax	1 157	1 143	1 120
Property taxes included in expenses	105	110	116
Payroll and other taxes included in expenses	36	40	42
GST/QST/HST collected ^(a)	1 385	1 230	1 098
GST/QST/HST input tax credits	(1 005)	(907)	(757)
Other consumer taxes collected for governments	1 499	1 538	1 474
Crown royalties	263	426	314
Total paid or payable to governments	4 102	3 895	3 893
Less investment tax credits and other receipts	9	8	8
Net payments to governments	4 093	3 887	3 885
Net payments to:			
Federal government	1 962	1 660	1 803
Provincial governments	2 026	2 117	1 966
Local governments	105	110	116
Net payments to governments	4 093	3 887	3 885

(a) The abbreviations refer to the federal goods and services tax, the Quebec sales tax and the federal/provincial harmonized sales tax, respectively. The HST is applicable in the provinces of Nova Scotia, New Brunswick and Newfoundland.

supplemental oil and gas information

The information on pages 42 and 43 is provided in accordance with the United States' Statement of Financial Accounting Standards (SFAS) No. 69 "Disclosure about Oil and Gas Producing Activities." Additional information required by SFAS No. 69 is included in Form 10-K.

Results of operations

millions of dollars	Oil and gas			Athabasca oil sands (including Syncrude)			Total		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
Sales to customers	635	607	556	—	—	—	635	607	556
Intersegment sales	743	927	865	476	432	383	1 219	1 359	1 248
Total sales ⁽¹⁾	1 378	1 534	1 421	476	432	383	1 854	1 966	1 804
Production expenses	529	538	524	275	259	263	804	797	787
Exploration expenses	31	45	75	9	—	—	40	45	75
Depreciation and depletion	389	411	468	53	53	32	442	464	500
Income taxes	205	268	178	53	47	36	258	315	214
Results of operations	224	272	176	86	73	52	310	345	228

Capital and exploration expenditures

millions of dollars	Oil and gas			Athabasca oil sands (including Syncrude)			Total		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
Property costs ⁽²⁾									
Proved	—	2	8	—	—	—	—	2	8
Unproved	1	4	4	4	—	—	5	4	4
Exploration costs	41	69	82	9	—	—	50	69	82
Development costs	294	225	192	81	51	42	375	276	234
Total capital and exploration expenditures	336	300	286	94	51	42	430	351	328

Property, plant and equipment

millions of dollars	Oil and gas		Athabasca oil sands (including Syncrude)		Total	
	1997	1996	1997	1996	1997	1996
Property costs ⁽²⁾						
Proved	2 199	2 590	11	12	2 210	2 602
Unproved	137	137	5	4	142	141
Producing assets	4 170	5 058	1 026	938	5 196	5 996
Support facilities	112	107	167	154	279	261
Incomplete construction	123	134	4	32	127	166
Total cost	6 741	8 026	1 213	1 140	7 954	9 166
Accumulated depreciation and depletion	3 309	3 960	441	399	3 750	4 359
Net property, plant and equipment	3 432	4 066	772	741	4 204	4 807

(1) Sales of crude oil to consolidated affiliates are at market value, using posted field prices. Sales of natural gas liquids to consolidated affiliates are at prices estimated to be obtainable in a competitive, arm's-length transaction. Total sales exclude the sale of natural gas and natural gas liquids purchased for resale.

(2) "Property costs" are payments for rights to explore for petroleum and natural gas, and for purchased reserves (acquired tangible and intangible assets such as gas plants, production facilities and producing-well costs are included under "Producing assets"). "Proved" represents areas where successful drilling has delineated a field capable of production. "Unproved" represents all other areas.

Net proved developed and undeveloped reserves ⁽¹⁾

	Crude oil and NGLs millions of barrels			Total	Natural gas billions of cubic feet
	Conventional	Cold Lake	Syncrude		
Beginning of year 1995	416	752	448	1 616	2 302
Revisions of previous estimates and improved recovery	(18)	60	—	42	(53)
Sale of reserves in place	(5)	—	—	(5)	(79)
Discoveries and extensions	9	—	—	9	104
Production	(40)	(33)	(16)	(89)	(156)
End of year 1995	362	779	432	1 573	2 118
Revisions of previous estimates and improved recovery	11	—	26	37	(100)
Sale of reserves in place	(7)	—	—	(7)	(65)
Discoveries and extensions	1	—	—	1	61
Production	(36)	(27)	(15)	(78)	(142)
End of year 1996	331	752	443	1 526	1 872
Revisions of previous estimates and improved recovery	6	—	—	6	(24)
Sale of reserves in place	(63)	—	—	(63)	(122)
Discoveries and extensions	16	—	190	206	24
Production	(31)	(39)	(17)	(87)	(138)
End of year 1997	259	713	616	1 588	1 612

(1) Net reserves are the company's share of reserves after deducting the shares of mineral owners or governments or both. All reported reserves are located in Canada. Reserves of natural gas are calculated at a pressure of 14.73 pounds per square inch at 60 degrees Fahrenheit.

Conventional and Cold Lake crude oil and natural gas reserve estimates are based on geological and engineering data, which have demonstrated with reasonable certainty that these reserves are recoverable in future years from known reservoirs under economic and operating conditions existing at December 31 of the relevant year. Reserves of crude oil at Cold Lake are those estimated to be recoverable from the existing experimental pilot plants and commercial stages 1 through 10. The calculation of reserves of crude oil at Syncrude is based on the company's participating interest in the production permit granted in October 1979 and as subsequently amended by the Province of Alberta.

Net proved reserves are determined by deducting the estimated future share of mineral owners or governments or both. For conventional crude oil (excluding enhanced oil-recovery projects), oil from the Cold Lake pilots and natural gas, net proved reserves are based on estimated future royalty rates representative of those existing at December 31 of the relevant year. Actual future royalty rates may vary with production and price. For enhanced oil-recovery projects, Syncrude and stages 1 through 10 of Cold Lake, net proved reserves are based on the company's best estimate of average royalty rates over the life of each project. Actual future royalty rates may vary with production, price and costs.

Reserves data do not include crude oil and natural gas discovered in the Beaufort Sea - Mackenzie Delta, the Arctic Islands and Sable Island, or the resources contained in oil sands other than those attributable to Syncrude, the Cold Lake pilot area and stages 1 through 10 of Cold Lake production operations.

In 1997, Imperial's net proved reserves of crude oil and NGLs increased by 62 million barrels, while the proved reserves of natural gas decreased by 260 billion cubic feet. Production in 1997 totaled 87 million barrels of crude oil and NGLs and 138 billion cubic feet of natural gas. Revision of previous estimates and improved recovery added six million barrels of crude oil and decreased natural gas by 24 billion cubic feet. Sales of reserves accounted for a decrease of 63 million barrels of crude oil and NGLs and 122 billion cubic feet of natural gas. This reflects the sale of Judy Creek, Swan Hills and other properties. Discoveries and extensions totaled 206 million barrels of crude oil and 24 billion cubic feet of natural gas in 1997, including crude oil reserves for the first phase of the Syncrude Aurora mine. Exploration did not provide sufficient additions to natural gas reserves to offset the effects of divestments and production.

share ownership, trading and performance

	1997	1996	1995	1994	1993
Share ownership					
Average number outstanding, weighted monthly (thousands)	154 046	175 856	192 511	193 841	193 841
Number of shares outstanding at December 31 (thousands)	149 328	158 963	189 011	193 841	193 841
Shares held in Canada at December 31 (percent)	18.1	17.7	18.2	21.2	24.5
Number of registered shareholders at December 31 ⁽¹⁾	18 459	19 095	20 181	20 778	21 388
Number of shareholders registered in Canada	16 057	16 627	17 505	18 253	18 805
Shares traded (thousands)	53 092	53 262	52 023	46 869	40 263
Share prices (dollars)					
High	92.30	64.90	53.50	48.75	50.25
Low	59.60	47.90	45.10	40.10	40.10
Close at December 31	92.00	64.50	49.40	46.25	44.75
Earnings per share (dollars)	5.50	4.47	2.67	1.85	1.44
Price ratios at December 31					
Share price to earnings ⁽²⁾	16.7	14.4	18.5	25.0	31.1
Share price to cash flow from earnings ⁽³⁾	9.9	7.8	7.3	7.8	7.4
Share price to cash from operating activities ⁽⁴⁾	14.4	6.5	5.8	11.4	6.0
Dividends declared ⁽⁵⁾					
Total (millions of dollars)	337	354	365	930	349
Per share (dollars)	2.20	2.05	1.90	4.80	1.80

(1) Imperial is an affiliate of Exxon Corporation, which owns 69.6 percent of the company's shares.

(2) Closing share price at December 31, divided by net earnings per share.

(3) Closing share price at December 31, divided by cash flow from earnings per share (page 1).

(4) Closing share price at December 31, divided by cash from operating activities per share.

(5) The fourth-quarter dividend is paid on January 1 of the succeeding year.

Information for security holders outside Canada

Cash dividends paid to shareholders resident in countries with which Canada has an income tax convention are usually subject to Canadian nonresident withholding tax of 15 percent.

The withholding tax is reduced to five percent on dividends paid to a corporation resident in the United States that owns at least 10 percent of the voting shares of Imperial.

There is no Canadian tax on gains from selling shares or debt instruments owned by nonresidents not carrying on business in Canada.

Valuation day prices

For capital-gains purposes, Imperial's common shares were quoted at \$31.50 a share on December 31, 1971, and \$45.875 on February 22, 1994.

quarterly financial and stock trading data

three months ended	1997				1996			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Financial data (millions of dollars)								
Total revenues	2 696	2 643	2 729	3 054	2 401	2 608	2 602	2 890
Total expenses	2 354	2 315	2 378	2 548	2 162	2 385	2 399	2 622
Earnings before income taxes	342	328	351	506	239	223	203	268
Income taxes	151	145	150	234	(135)	108	104	70
Net earnings	191	183	201	272	374	115	99	198
Segmented earnings (millions of dollars)								
Natural resources	120	74	98	174	65	70	59	139
Petroleum products	65	91	94	47	72	37	26	11
Chemicals	20	30	23	55	14	16	26	12
Corporate and other	(14)	(12)	(14)	(4)	223	(8)	(12)	36
Net earnings	191	183	201	272	374	115	99	198
Per-share information (dollars)								
Net earnings	1.21	1.18	1.32	1.81	1.99	0.62	0.58	1.24
Cash flow from earnings	2.54	2.37	2.25	2.09	2.64	1.48	1.76	2.38
Dividends (declared quarterly)	0.55	0.55	0.55	0.55	0.50	0.50	0.50	0.55
Share prices (dollars) ⁽¹⁾								
Toronto Stock Exchange								
High	65.60	72.00	81.30	92.30	54.90	59.90	61.25	64.90
Low	59.60	61.00	67.75	78.00	47.90	53.30	55.15	57.05
Close	64.30	70.75	79.60	92.00	53.60	57.60	57.70	64.50
American Stock Exchange (\$U.S.)								
High	49	51 3/4	58 1/2	65 1/4	40 1/4	43 5/8	44 3/4	47 3/8
Low	43 1/2	43 3/4	49	55 1/8	34 7/8	38 7/8	40	42
Close	46 5/8	51 3/8	57 1/2	63 15/16	39 1/2	42 1/4	42 1/2	47
Shares traded (thousands) ⁽²⁾	16 815	12 625	13 207	10 445	14 397	15 518	11 521	11 826

(1) Imperial's shares are listed on the Montreal and Toronto stock exchanges, and are admitted to unlisted trading on the American Stock Exchange in New York. The symbol on these exchanges for Imperial's common shares is IMO. Share prices were obtained from stock-exchange records.

(2) The number of shares traded is based on transactions on all the above stock exchanges.

glossary of financial terms

Capital employed is short-term and long-term debt and shareholders' equity. Average capital employed is the average of the beginning and end-of-year amounts.

Cash represents cash in the bank and cash equivalents at cost, plus accrued interest. Cash equivalents are all highly liquid securities with a maturity of three months or less when purchased.

Debt represents amounts borrowed from external sources. These amounts exclude unamortized foreign-exchange gains or losses on debentures and notes.

Marketable securities are securities of the governments of Canada and the provinces, banks and other corporations, with a maturity of longer than three months when purchased.

Net realizable value is the estimated selling price of an asset, less the estimated costs of preparing the asset for sale and of selling it.

Deferred income taxes are the difference between income taxes deducted in calculating earnings in accordance with generally accepted accounting principles and taxes currently payable under income tax legislation. They result from certain deductions from income being recognized in different periods for tax and accounting purposes. The largest source of deferred income taxes is depreciation and depletion, where deductions are made earlier for tax purposes than for accounting purposes. Deferred income taxes are not a liability under the law.

Per-share information is calculated by dividing the respective nominal amounts by the average number of shares outstanding, weighted monthly.

corporate governance

The following statement addresses the principal matters relating to the company's corporate governance practices as required by The Toronto Stock Exchange and the Montreal Exchange. It has been prepared by the nominations and corporate governance committee of the board of directors and has been approved by the board of directors.

Mandate of the board

The board is responsible for the stewardship of the company. In fulfilling its mandate, the board, among other matters, oversees major corporate plans, including strategic plans, plans for management development and succession, and plans for business development. The board monitors the integrity of internal controls, management information systems and systems to identify the principal risks to the company's businesses. The board also reviews interim and annual financial and operating results.

Composition of the board

The board of directors is currently composed of 10 directors, six of whom are not employees of the company.

The four employee directors are considered to be related to the company. They are the chairman, president and chief executive officer, and the three senior vice-presidents of the company. The board believes that their extensive knowledge of the company's business is beneficial to the other directors and their participation as directors enhances the effectiveness of the board.

The board believes that all six nonemployee directors are unrelated to the company. Each of them is independent of management and none of them has any interest, business or other relationship that could or could reasonably be perceived to materially interfere with his or her ability to act in the best interests of the company.

The company has a significant shareholder, Exxon Corporation, which holds 69.6 percent of the outstanding voting shares of the company. The board believes that the investment of minority shareholders in the company is fairly reflected on the board.

Decisions requiring board approval

In addition to those matters that must by law be approved by the board, management is required to seek board approval for major transactions. The board of directors has delegated to senior management the authority to enter into various types of transactions, subject to specified limitations. Management is also required to consult with the board before entering into any venture that is outside of the company's existing businesses.

Board's expectations of management

The board expects management to propose and, after board approval, execute the company's strategic direction, long-term plans, goals and targets, and to be accountable for the company's financial and competitive performance. It also expects management to provide the board with timely, complete and accurate information on the business operations of the company, and to provide for the development of senior executives and plan for their succession. As well, it expects the company's resources to be managed in a manner consistent with enhancing the value of the company, within the law, and with consideration for ethics and corporate social responsibility.

Independent functioning of the board

The board of directors does not have a chairman separate from the chief executive officer.

The board believes that there are a number of structures and processes in place to facilitate the functioning of the board independently of management. The board has a majority of unrelated directors. The committee chairpersons are unrelated directors. Each committee has a majority of unrelated directors. The agendas of the board and its committees are not set by management alone, but also by the board as a whole and by each committee. A significant number of agenda items are mandatory and recurring. Board meetings are scheduled at least one full year in advance. Any director may call a meeting of the board or a meeting of a committee of which the director is a member. The board typically holds 10 scheduled meetings a year (11 meetings were held in 1997). There is a board-prescribed flow of financial, operating and other corporate information to all directors. Periodically, the unrelated directors hold meetings in the absence of the related directors.

The board has not implemented a system to enable an individual director to engage an outside adviser at the expense of the company; however, the board has concluded that provision of such advice can be dealt with on a case-by-case basis when requested by a director.

Description of the board committees, their mandates and their activities

The board has four committees: the audit committee, the environment, health and safety committee, the executive resources committee, and the nominations and corporate governance committee.

Audit committee

J.B. (Bruce) Buchanan, chair

The audit committee, composed of the unrelated directors and Mr. Cacchio, reviews the company's annual and quarterly financial statements, accounting practices, and business and financial controls. The internal audit program and its findings are reviewed with the committee. It also recommends to the directors the external auditors to be appointed by the shareholders at each annual meeting, reviews their audit work plan and approves their fees. The shareholders' auditors attend and participate in all meetings. The committee met seven times in 1997.

Environment, health and safety committee

W.A. (Bill) Macdonald, chair

The environment, health and safety committee, composed of the unrelated directors and Mr. Peterson, reviews policies and programs for corporate environmental, health and safety matters. The committee oversees the company's performance in this area and monitors compliance with regulatory and corporate standards in the company's operations. It also monitors trends, and reviews current and emerging policy in these areas. The committee met four times in 1997.

Executive resources committee

P. (Pierre) Des Marais II, chair

The executive resources committee, composed of the unrelated directors and Mr. Peterson, is responsible for decisions on the compensation of senior management above the level of vice-president and for reviewing the executive development system, including specific succession plans for senior management positions. It also reviews corporate policy on compensation. The committee met four times in 1997.

Nominations and corporate governance committee

R.J. (Dick) Currie, chair

The nominations and corporate governance committee, composed of the unrelated directors and Mr. Peterson, recommends to the directors the slate of director candidates to be proposed for election by the shareholders at the annual meeting. It assesses the effectiveness of the board as a whole, of committees of the board and of individual directors, and is responsible for developing the company's approach to corporate governance issues. It also monitors the board's guidelines for the selection and tenure of directors and recommends specific director candidates when vacancies are expected. The committee met four times in 1997.

Imperial Oil Charitable Foundation

S.D. (Sheelagh) Whittaker, chair

The board of directors of the Imperial Oil Charitable Foundation, composed of the unrelated directors of the company and Mr. Baldwin, oversees the company's charitable contributions program. Imperial's contributions program is aimed at enhancing the quality of life in communities where the company has a significant presence, with particular emphasis on education and youth. The directors met six times in 1997.

Procedures in place for recruiting new directors and performance-enhancing measures

The nominations and corporate governance committee annually considers a list of potential nominees for directorships, assesses all incumbent directors against the criteria for continued board membership and considers their suitability for recommendation for election by the shareholders.

Each board committee is charged with assessing its mandate and its effectiveness, and performs this function at least once a year.

The board regularly visits company operating sites.

Measures for receiving shareholder feedback and dealing with shareholder concerns

The company has an investor relations group that communicates with and responds to inquiries from institutional investors, individual investors and the financial community.

Imperial annually solicits questions and comments from shareholders by way of comment cards that are mailed to shareholders in connection with the annual meeting. The comments received are reviewed by senior management and those requiring a response are answered individually.

Directors

D.D. (Doug) Baldwin

*Senior vice-president, resources division
Imperial Oil Limited
Calgary, Alberta*

J.B. (Bruce) Buchanan

*Chairman
Vancouver Foundation
Vancouver, British Columbia*

D.J. (Dan) Cacchio

*Senior vice-president,
finance and administration
Imperial Oil Limited
Toronto, Ontario*

R.J. (Dick) Currie

*President
Loblaw Companies Limited
Toronto, Ontario*

P. (Pierre) Des Marais II

*President and chief executive officer
UniMédia Inc.
Montreal, Quebec*

B.J. (Brian) Fischer

*Senior vice-president,
products and chemicals division
Imperial Oil Limited
Toronto, Ontario*

W.A. (Bill) Macdonald

*President
W.A. Macdonald Associates Inc.
Toronto, Ontario*

R.B. (Bob) Peterson

*Chairman, president
and chief executive officer
Imperial Oil Limited
Toronto, Ontario*

J.F. (Jim) Shepard

*Chairman and chief executive officer
Finning International Inc.
Vancouver, British Columbia*

S.D. (Sheelagh) Whittaker

*President and chief executive officer
EDS Canada
Toronto, Ontario*

Senior management and officers

R.B. (Bob) Peterson

*Chairman, president
and chief executive officer*

D.D. (Doug) Baldwin

*Senior vice-president,
resources division*

D.J. (Dan) Cacchio

*Senior vice-president,
finance and administration*

B.J. (Brian) Fischer

*Senior vice-president,
products and chemicals division*

J.F. (John) Kyle

Vice-president and treasurer

R.C. (Ron) Walker

Vice-president and general counsel

P.T. (Pat) Mulva

Comptroller

J. (John) Zych

Corporate secretary

information for investors

Head office

Imperial Oil Limited
111 St. Clair Avenue West
Toronto, Ontario, Canada M5W 1K3
Telephone: 416-968-4111

Transfer agents

The company's transfer agents are:

The Trust Company of Bank of Montreal
129 Saint-Jacques Street, Level B North
Montreal, Quebec H2Y 1L6
Telephone: 514-877-2584

Harris Trust Company of New York
88 Pine Street
New York, New York 10005
Telephone: 212-701-7673

For more information

About your shares

If you have a question about dividend payments, dividend reinvestment, lost dividend cheques, settling an estate, or transferring or replacing share certificates, you can use Imperial's toll-free service to obtain information 24 hours a day.

In Canada call: 1-800-267-9515

In the United States call: 1-800-388-1518

The Trust Company of Bank of Montreal can also be reached through these lines.

Shareholders who have concerns about the quality of service received from the transfer agent may call the corporate secretary's office at 416-968-4713 or fax 416-968-4095.

Employees with shares in the Imperial Oil savings plan should contact Canada Trust at 1-800-668-2648.

About the company

To receive the following documents, you can leave a message with your request at 416-968-5076. The material will be mailed to you within three business days.

- Annual and interim reports
- Form 10-K
- *Information for Investors* (a fact book that describes the company and its operations in detail; it also includes the most current financial information and executive speeches)

For other financial information, write to the investor relations manager at Imperial's head office.

Internet web site

Imperial has a site on the World Wide Web section of the Internet that contains a variety of corporate and investor information.

The site's address is <http://www.imperialoil.ca>.

The annual meeting

The annual meeting of shareholders will be held on Friday, April 24, 1998, at 11 a.m. local time at: Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario, Canada.

The annual meeting record date was March 6, 1998.

Dividend payments

Imperial has a long record of uninterrupted dividend payments. Anyone who is an owner of shares on the record date is paid the dividend. Record dates normally fall in the last month of each calendar quarter – i.e., March, June, September and December. The dividend payment date is normally the first day of the following month. For the first quarter of 1998 the record date was March 2, and the payment date is April 1.

Shareholders may elect to have their dividends paid in U.S. funds or to have their dividends deposited directly into accounts held at financial institutions in Canada that provide electronic funds-transfer services.

To increase your shareholdings

The dividend reinvestment and share-purchase plan provides shareholders with two ways to add to their shareholdings at a reduced cost. The plan enables shareholders to reinvest their cash dividends in additional shares at an average market price. Shareholders can also invest between \$50 and \$5,000 each calendar quarter in additional shares at an average market price.

Funds directed to the dividend-reinvestment and share-purchase plan are used to buy existing shares on a stock exchange rather than newly issued shares.

Shareholder account matters

To change your address, transfer shares, eliminate multiple mailings, elect U.S. funds, elect direct deposit of cash dividends, enroll in the dividend-reinvestment and share-purchase plan or make other shareholder account inquiries, please contact The Trust Company of Bank of Montreal. United States resident shareholders may transfer their shares through Harris Trust Company of New York.

Version française du rapport

Pour obtenir la version française du rapport de la Compagnie Pétrolière Impériale Ltée, veuillez écrire à la division des Relations avec les investisseurs, Compagnie Pétrolière Impériale Ltée, 111 St. Clair Avenue West, Toronto, Canada M5W 1K3.



Imperial Oil

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Imagine  A Caring Company

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